FILE COPY

Office Supreme Court, U.S.
FILED
JUL [illegible] 1958
JOHN T. FEY, Clerk

IN THE

Supreme Court of the United States

October Term, 1958

No. 217

STROEHMANN BROTHERS COMPANY and QUALITY BAKERS OF AMERICA COOPERATIVE, INC.,
Petitioners,

v.

HUBER BAKING COMPANY,
Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

ROBERTS B. LARSON,
Attorney for Petitioner, Stroehmann Brothers Company,
No. 1625 Eye Street, N. W.,
Washington 6, D. C.

HAROLD GREENWALD,
Attorney for Petitioner, Quality Bakers of America Cooperative, Inc.,
No. 170 Broadway,
New York 38, N. Y.

LODER APPEAL PRESS, INC., 65 Duane Street, N. Y. C. WOrth 2-0689.

INDEX TO BRIEF

	PAGE
Opinions Below	1
Jurisdiction	1
Questions Presented	2
Statutes Involved	2
Statement of the Case	2
Reasons for Granting the Writ	7
(1) The Court of Appeals has decided an important Federal question which has not been, but should be, settled by this Court	7
(2) The opinion of the Court of Appeals is in conflict with the decision of another Court of Appeals on the same matter	11
(3) The Court of Appeals has decided an important question in a way in conflict with controlling decisions of state courts	13
(4) The opinion of the Court of Appeals is incomplete, unclear and confusing	15
(5) The Court of Appeals has disregarded the findings of fact by the District Court which, unless clearly wrong, and the Court did not so find, is contrary to Rule 52a	17
Conclusion	18
Appendix	1a

CASES CITED

	PAGE
Center Star v. Rossland (1903), B. C. R. 402	14
City Messenger of Hollywood, Inc. v. City Bonded Messenger Service, Inc., 254 F. 531, 533, 48 T. M. R. 587 C. A. 7 (1958)	15
Connecticut Milk Producers Assn. v. Brock-Hall Dairy Co., Inc., 191 A. 326, 331-332, 122 Conn. 482, 495 (1937)	10
Dahath Electric Co. v. Suburban Electric Development Co., 2 A. 2d 765, 768, 332 Pa. 129, 133 (1938)	13
Frost v. Corporation Commission of Oklahoma, 278 U. S. 515, 536, 73 L. Ed. 483, 495 (1929)	8, 14
Graver Tank and Manufacturing Co., Inc., et al. v. Linde Air Products Co., 339 U. S. 605, 609, 94 L. Ed. 1097, 1103 (1950)	17
Guardino Tank Processing Corporation v. Olsson (not officially reported), 89 N. Y. S. 2d 691, 696-697 (1949)	16
Hart v. Cort, 165 N. Y. App. Div. 583, 151 N. Y. S. 4 (1914)	13
Heap v. Hartley, 42 Ch. Div. 461, 470 (1889)	14
Hunter Douglas Corporation v. Lando Products, Inc., 235 F. 2d 631, 632 C. A. 9 (1956)	17
Knox National Farm Loan Assn. v. Phillips, 300 U. S. 194, 201, 81 L. Ed. 599, 604 (1937)	8

PAGE

Mechancial Ice Tray Corporation v. General Motors Corporation, 144 F. 2d 720, 725, C. A. 2 (1944) 16

Panaview Door & Window Co. v. Reynolds Metal Company, 116 U. S. P. Q. 493 ..... 11, 12, 13, 18

Parkway Baking Co. v. Freihofer Baking Co., 154 F. Supp. 823 D. C. E. D. Pa. (1947) 14

People v. Teuscher, 162 N. E. 484, 487, 248 N. Y. 454, 463 (1928) 11

Quality Courts United, Inc. v. Quality Courts United, Inc., 249 F. 2d 790 (1957) 15

Nee v. Linwood Securities Co., 174 F. 2d 434, C. A. 8 (1949) 18

Rhodes v. Little Falls Dairy Company, Inc., 230 App. Div. 571, 573, 245 N. Y. S. 432, 434, affd. 177 N. E. 440, 256 N. Y. 559 (1931) 8

Royal Lace Paper Works, et al. v. Pest-Guard Products, Inc. 240 F. 2d 814, 818 C. A. 5 (1957) 15

Tas-T-Nut Company v. Variety Nut & Date Company, 245 F. 2d 3, 8, 47 T. M. R. 1073, 1079 C. A. 6 (1957) 15

The Fair v. Kohler Die and Specialty Company, 228 U. S. 22, 25 14

U. S. v. Yellow Cab Co., 338 U. S. 338, 94 L. Ed. 150 (1949) 18

Warne v. Routledge, L. R. 18 Eq. 497 (1874) 14

PAGE

Willis v. Tibbals, 33 N. Y. Super. Ct. 220 (1871) 13

Wood v. Lucy, Lady Duff-Gordon, 118 N. E. 214, 222 N. Y. 88 (1917) 16

AUTHORITIES CITED

Ball, Law of Copyright and Literary Property (1944), p. 531 14

Callman, Unfair Competition and Trade Marks, 2d Ed. Vol. 3, p. 1934 9

Legal Phases of Cooperative Associations, Lyman S. Hulbert, Farm Credit Administration, 1942, pp. 1, 4 8

Nourse, Legal Status of Agricultural Cooperatives, 1927, p. 268 8

Packel, The Law of the Organization and Operation of Cooperatives, 2nd Ed. 1947, pp. 91, 164 8

Weil, Copyright Law, p. 554 13

69 C. J. S., p. 778 16

IN THE

Supreme Court of the United States

OCTOBER TERM, 1958

No. .....

STROEHMANN BROTHERS COMPANY and QUALITY BAKERS OF AMERICA COOPERATIVE, INC.,

Petitioners,

v.

HUBER BAKING COMPANY,

Respondent.

Petition for a Writ of Certiorari to the United States Court of Appeals for the Second Circuit

Petitioners pray that a writ of certiorari issue to review the decision and judgment of the United States Court of Appeals for the Second Circuit, entered in the above-entitled case on February 24, 1958.

Opinions of the Courts Below

The opinion of the District Court (Lawrence J. Walsh, D.J.) is reported unofficially in 46 T.M.R. 1214 and is printed in Appendix B hereto, *infra*, page 1b. The opinion of the Circuit Court, printed in Appendix B, page 10b, is reported in 252 F. 2d 945 and unofficially in 48 T.M.R. 711 and 116 U.S.P.Q. 348. The judgment of the District Court entered thereon is printed in Appendix B, page 33b. Denial of a temporary injunction had been affirmed on December 7, 1953 (208 F. 2d 464).

Jurisdiction

The jurisdiction of this Court is invoked under 28 U.S.C., §1254(1). The Court of Appeals rendered its decision on

February 24, 1958. The judgment of the District Court was entered on June 9, 1958. By an order of Mr. Justice Harlan dated May 26, 1958, the time for filing a petition for a writ of certiorari was extended to and including July 25, 1958.

Questions Presented

1. May a single member of a nation-wide non-profit cooperative corporation monopolize, in a vital interstate area, the latter's registered collective trademark,[1] to the exclusion of his fellow members and contrary to the wishes of the cooperative?

2. A subsidiary question is whether the Court of Appeals should not have adhered to the findings of the District Court. It disregarded such findings without holding them clearly wrong and made new independent findings contrary thereto.

Statutes Involved

The statutory provisions involved are printed in Appendix A, *infra*, pages 1a-4a; they include sections of the Lanham Act, copyright law and Robinson-Patman Act, and provisions of the Cooperative Corporations Law of New York.

Statement of the Case

Huber Baking Company and Stroehmann Brothers Company are members of Quality Bakers of America Cooperative, Inc. The parties will be referred to as "Huber," "Stroehmann" and "QBA."

---

[1] Collective marks (15 U.S.C. § 1054, p. 1a, *infra*) and co-operatives which may register them are *sui generis*. A collective mark is a statutory innovation by which a cooperative, which does not operate a plant or even use the trade mark, is enabled to own and register such mark. This court has never decided a case involving a collective trade mark registered under the Lanham Act.

QBA is a non-profit cooperative corporation, organized under the Cooperative Corporations Law of New York, composed of some 120 members in the United States, Canada and Bermuda. Each operates an individually owned bakery, assisted by services derived through QBA membership, by virtue of which it is enabled to survive the competition of the bakery chains.

Pursuant to the statute,[2] QBA was created "for mutual help, not conducted for profit, for the purposes of assisting its members, by performing services connected with the purchase, * * * production, manufacture, warehousing, * * * preservation, * * * blending, packing, * * * handling, * * * marketing, merchandising [and] selling, * * * the food products of its members."

QBA operates a laboratory in which products and ingredients are tested and through which quality control is maintained. Its production department is composed of specialists who render services at members' plants on an established schedule. QBA sanitarians enforce sanitation of plants and equipment. Merchandising and advertising departments have advanced members' sales in the face of growing competition. QBA members, by pooling and standardization, receive "patronage refunds," distributed by the cooperative from its "net margins." These savings alone have returned to Huber 170% of his cost of QBA membership.[4] As a member, Huber receives all the services provided for in the Membership Agreement.[5]

Under that agreement, QBA operates "for the mutual help and benefit of its members * * * as an adjunct to the individual and independent business of such members * * * without profit, the earnings, margins and savings

[2] N. Y. Co-op. Corps. Law, §§ 2, 13, Appendix, p. 3a.

[3] Id. § 3, p. 3a, 15 U.S.C. § 13b, p. 2a.

[4] Record, p. 955b.

[5] Plaintiff's Exhibit 12, Record, p. 643a.

[being distributed] among the members"; each member "agrees to conduct himself and to use his efforts to the end that the activities of the cooperative may be conducted to the best interests of all, equally, and without prejudice to any member, patron or group thereof." The agreement is signed by each member "in consideration of the mutual covenants and agreements (t)herein contained and the signatures of other members and patrons to like agreements." It is terminable on 90 days' notice by either signatory.

The statute[6] provides that "each member shall be entitled to one vote only" and that a member shall forfeit membership[7] when no longer engaged in the occupation for the servicing of which the cooperative was formed. Consistent therewith, QBA's charter[8] and by-laws limit voting rights, one to each member; voting rights may be exercised only so long as eligibility for membership continues; a "member shall forfeit his membership should he cease to be engaged in the production [of baked goods] aforesaid."

It is our submission that QBA operates properly under the laws of New York as a non-profit cooperative, that its members are entitled to equal rights and privileges, and that the benefits to be enjoyed, so long as membership continues, are non-preferential.

In this action, Huber claims as his, to the exclusion of his fellow members and of QBA, the products of QBA's advertising and merchandising departments. These consist of QBA's collective and composite trade marks, known as "Sunbeam" and "Miss Sunbeam," together with the advertising campaigns embodying the same. Those words, as such, are not registered.

---

[6] Co-op Corps. Law, §44, p. 4a.

[7] Id. § 42, p. 4a.

[8] Exhibit GL, Record, p. 1002b.

The collective mark was registered on April 27, 1943 upon QBA's application filed on October 31, 1942,[9] republished under the Lanham Act. As registered, it "is used upon the goods to indicate that the goods are inspected, from time to time, in applicant's laboratory and quality thereof approved and that such persons so authorized to use same are members of the applicant cooperative corporation." Under the statute[10] and by definition of the certificate of registration, the collective mark is the symbol of QBA membership and quality control.

The composite marks were registered by QBA in almost all of the 48 states.[11] QBA has copyrighted such campaigns over the years, since 1942,[12] when it commenced the preparation of "Sunbeam" and "Miss Sunbeam" wrappers and advertising campaigns. Its members have used all of the same in such volume, at an annual cost of some $14,000,000.00, that the mark has achieved national reputation as probably the most valuable in the industry.

Huber never used the collective or composite marks or the campaigns which QBA built upon the same, except as a QBA member and subject to QBA quality control. Huber has never left QBA membership; his efforts to use such marks, independently of QBA's control, were promptly discontinued upon QBA's objection.[13]

The territory embraced within a license from QBA to Huber is the State of Delaware and parts of Maryland, New Jersey and Pennsylvania, including the cities of Wilmington, Camden and Philadelphia.[14] Huber's bakery

---

[9] Record, p. 957b.

[10] 15 U.S.C. §§ 1054, 1127, pp. 1a, 2a.

[11] Record, p. 570a.

[12] 17 U.S.C. § 1, p. 2a; Exhibits.

[13] Exhibits W, X, Y, Record, pp. 908b-910b; Opinion, Walsh, D. J., App. B, p. 6b.

[14] Map, Record, p. 24a.

is located in Wilmington. Huber does no business, whatsoever, in major portions of that territory. His Philadelphia business is small.[15] The loaf he sells in Philadelphia is not the subject of this suit.[16]

Stroehmann is a QBA member-licensee, operating under QBA quality control. Its plant, in Norristown, distributes regularly in metropolitan Philadelphia, which is a prime market embracing all media necessary for advertising purposes, essential to the sales efforts of several QBA member-licensees operating in contiguous areas. Stroehmann claimed the right, as a QBA member, to have his license extended into a portion of the area kept fallow by Huber. Huber declined to meet with the QBA's Board of Directors to consider Stroehmann's claim or the interests of other QBA members. When the Stroehmann license was extended, reserving to Huber all outlets served by the latter, Huber brought this action.

The complaint pleads three causes in a single count: (a) that Huber owns common law trade mark rights which are infringed, (b) that Huber is the holder of an exclusive license from QBA and that its contractual rights are breached, and (c) that Stroehmann and QBA are guilty of unfair competition.

The case was tried upon the theory of Huber's ownership. In his opening, Huber stated:[17]

> "We are not claiming a license or as under a license, or any rights derived through membership in QBA."

The trial court rejected the claim of ownership. After 13 days of trial and the hearing of parol evidence, Huber's

[15] Huber's Exhibit 129, Record, p. 743a.

[16] As found by Opinion, Walsh, D. J., *infra*, pp. 8b-9b.

[17] Record, p. 71a.

license was found to be non-exclusive, as negotiated. Huber conceded that the licenses of his fellow-members were all non-exclusive,[18]

The Court of Appeals likewise rejected Huber's claim of ownership. However, it found Huber to be an exclusive licensee.

Jurisdiction of the District Court is predicated upon diversity of citizenship.[19]

Reasons for Granting the Writ

1. The Court of Appeals has decided an important Federal question which has not been, but should be, settled by this Court.

This case involves the relationship among members of non-profit cooperative corporations, particularly as regards a collective trade mark granted under federal statute, a question of importance beyond the particular parties hereto. While the theory of cooperation is widely applied, the underlying principles differ from those of the ordinary business organization.

> "It should be kept in mind that a cooperative association is a capitalistic institution * * * formed for the same reasons as other business enterprises. In a cooperative, however, the financial benefits accrue to the patrons, while in a commercial enterprise they accrue to those who have invested their money in the business.
>
> * * * * *
>
> "It is apparent that the relationship between the members and the association is much more intimate and personal than that between an ordinary

[18] Huber's briefs below.

[19] Complaint, par. IV, Record, p. 5a.

> corporation and its stockholders. The courts have recognized that this is true." (*Legal Phases of Cooperative Associations* by Lyman S. Hulbert, Farm Credit Administration, 1942 pp. 1, 4.)

The identity of interest among cooperators has been held to create a trust relationship [*Rhodes* v. *Little Falls Dairy Company, Inc.*, 230 App. Div. 571, 573, 245 N. Y. S. 432, 434, affd. 177 N. E. 440, 256 N. Y. 559 (1931)].

Equality among members is fundamental (Packel, *The Law of the Organization and Operation of Cooperatives*, 2nd Ed. 1947, pp. 91, 164), since "one of the distinctive features of the cooperative organization is that it aims to create 'a union of men, not a union of capital', as does the ordinary commercial corporation" (Nourse, *Legal Status of Agricultural Cooperatives*, 1927, p. 268). Justice Brandeis stated (*Frost* v. *Corporation Commission of Oklahoma*, 278 U. S. 515, 536, 73 L. Ed. 483, 495 (1929) dis. op. concurred in by Justices Holmes and Stone) that the aim of the cooperative is "economic democracy on the lines of liberty, equality and fraternity." The doctrine of "one man one vote" written into the statute[20] and incorporated in QBA's charter,[21] is an outgrowth of this fundamental principle of equality.

In *Knox National Farm Loan Assn.* v. *Phillips*, 300 U. S. 194, 201, 81 L. Ed. 599, 604 (1937), this Court, by Cardozo, J., said:

> "the whole structure of the association is built upon the implication of equal rights and duties on the part of the cooperating members."

As a cooperative differs from a business corporation, a collective mark differs from an ordinary trade mark. Unlike the usual commercial trade mark, a collective mark is

---

[20] Co-op. Corps. Law, § 44, p. 4a.

[21] Exhibit GL, Record, p. 1022b.

a symbol of the good will of the cooperative which "advertises the entire membership and makes them the common beneficiaries of extensive and expensive advertising. The mark itself is an advertisement of and for the organization and it enables small producers to profit therefrom."[22] It signifies that the user is one of several "members of a cooperative"[23] over which a cooperative is "exercising legitimate control."[24]

The collective trade mark herein is used by QBA members throughout the country, in Canada and Bermuda. It was created by, and at great expense to, QBA as the result of its experience and the combined necessities of its membership. A multiplicity of private brand names, all jealously prized, have been abandoned in favor of the collective mark, by which member-licensees send their products to market under a common badge, supported by uniform art work. Such advertising, reproduced in quantity and disseminated through mass media at substantial savings, renders less unequal the competitive struggle in the baked goods industry. Because that common badge denotes membership in and quality control by QBA, no license fee is chargeable.

QBA does not, itself, use the collective mark, nor sell any baked goods, nor own a bakery. But it does control the use of its collective mark by its members. The policy of the State of New York in fostering cooperative effort is implemented by Federal law granting to cooperatives the advantages of registration of their collective marks. It is submitted that QBA, as the owner and registrant of the collective trade mark is qualified to receive the rights flowing from registration under the Lanham Act,[25] rights

[22] Callman, *Unfair Competition and Trade Marks*, 2nd Ed., Vol. 3, p. 1034.

[23] 15 U.S.C. § 1127, *infra*, p. 2a.

[24] 15 U.S.C. § 1054, p. 1a.

[25] 15 U.S.C. § 1057(b), p. 1a.

which are possessed by and should be shared among its members, equally and without preference.

QBA engages in the institutional advertising of its collective mark, circulated throughout the country. In this activity all member-licensees participate, Huber included. In addition, each member-licensee advertises under his own budget in consultation with QBA, Huber included.

Huber acknowledges the licenses of all QBA members, him alone excepted, to be non-exclusive. In addition to the issue as to whether his license is exclusive, we have a question as to Huber's right to receive, and QBA's power to grant, an exceptional, preferential, exclusive license to the use of the badge of QBA membership and quality control and to exclude from such use others who share his status and are, equally with him, members of QBA, equally subject to its quality control and equally the beneficial owners of its assets.

The Court below held that, prior to his coming into membership, Huber had something which he did not use since 1939 but cannot be expected to give up. It granted to him a monopoly in assets which he never had and is incapable of having, *i.e.*, collective and composite trade marks and advertising campaigns owned and registered by the cooperative and held in trust for all members.

It is submitted that the reasoning of the court in *Connecticut Milk Producers Assn.* v. *Brock-Hall Dairy Co., Inc.*, 191 A. 326, 331-332, 122 Conn. 482, 495 (1937), reflects a better understanding of the objectives of cooperatives and the duties of cooperators:

> "One cannot read these contracts without coming to the conclusion that the intent they expressed was that the Association should carry out the purposes stated in its articles 'to act cooperatively and collectively in handling the products' of its members, not by promoting such co-operation as might be

> possible so long as it could be carried on without requiring any member to surrender any particular advantage he might have, but by dealing with the members as a group and calling upon certain of them to surrender something of their own individual advantage in order to improve marketing conditions for those less fortunately situated."

Through the collective mark, efforts otherwise scattered and dissipated, have been concentrated and vitalized. The Lanham Act and State Cooperative Corporations Law are "harnessing the power that is latent within groups" as other laws are "harnessing the power in wind and fall and stream."[28] It is our submission that the Court below forced an *ultra vires* result upon the cooperative and that this petition involves principles of direct concern to other groups, similarly united for self-help and filling major economic and social roles.

2. The opinion of the Court of Appeals is in conflict with the decision of another Court of Appeals on the same matter.

Three days before the date of the decision below, the Court of Appeals for the Ninth Circuit decided *Panaview Door & Window Co.* v. *Reynolds Metals Company* (116 U.S.P.Q. 493). The issue of exclusivity was raised in that diversity suit, in which causes of action for breach of contract, violation of a confidential relationship and unfair competition were pleaded. As in the instant case, the trial was non-jury and the trial judge found the contract to be non-exclusive. The Court of Appeals, in affirming, stated (p. 496):

> "It is perfectly clear that when Reynolds expected to be bound to exclusive use, its agents knew how to say so."

---

[28] *People* v. *Teuscher*, 162 N. E. 484, 487, 248 N. Y. 454, 463 (1928) per Cardozo, J.

Judge Walsh, in his opinion herein, wrote (p. 5b, *infra*):

> "He [Huber] got that, but he did not get the exclusivity that he wanted to have go with it.
>
> "I cannot believe that this was an oversight * * * the parties must have realized that if the agreement did not provide for exclusivity it was leaving out something of importance."

The two statements are parallel.

There is added similarity between the holding of the trial court herein and the opinion in the *Panaview* case. Judge Walsh found (p. 4b, *infra*):

> "Undoubtedly Mr. Huber wanted the exclusive right to use all three things in his territory * * *.
>
> "But the fact is that he never got that with the agreement which he finally agreed was to formalize his relationship with QBA, and I really think that when he gave up in his effort to get that into the formal agreement, he decided he was going to take a chance on the unlikelihood that QBA would ever have another member competing in the area which he served."

In *Panaview*, the Court wrote (p. 496):

> "At the time these drawings were exchanged and the contract between these parties came into being, Reynolds had no customer other than Panaview for these Panador aluminum extrusions * * *. As a matter of fact, it must then have seemed quite unlikely that Reynolds would ever have any other customer for such extrusions * * *. The failure of Panaview to ask for an exclusive use clause in the contract is thus explained."

Absent a provision for exclusivity, the Court of Appeals for the Ninth Circuit decided that a non-exclusive right,

only, was granted, a decision which is in irreconcilable conflict with the decision below.

3. The Court of Appeals has decided an important question in a way in conflict with controlling decisions of state courts.

The license was executed in New York; the territorial dispute involves Philadelphia. The courts of New York and Pennsylvania hold that a license is non-exclusive, unless: (a) expressly made exclusive; or (b) the grantor promises not to license others. The rule is stated in Weil, *Copyright Law*, p. 554, citing *Hart* v. *Cort*, 165 N. Y. App. Div. 583, 151 N. Y. S. 4 (1914), as follows:

> "a license will be presumed non-exclusive unless expressly made exclusive."

Earlier, in *Willis* v. *Tibbals*, 33 N. Y. Super. Ct. 220 (1871), it was held that the grant of a right to publish did not grant the sole and exclusive right to publish.

The Pennsylvania Supreme Court, in *Dahath Electric Co.* v. *Suburban Electric Development Co.*, 2 A. 2d 765, 768, 332 Pa. 129, 133 (1938), considering a contract which was alleged to be exclusive, stated (p. 133):

> "As heretofore stated, parties to this contract, competent business men, had they contemplated an exclusive agency, would we think have so provided in their written agreement. It could not be properly or justly concluded that they left this most important feature of the agreement out to be read into it by inference."

This case represents the *lex loci*. The excerpt above closely resembles the quotation from the opinion of the Court of Appeals, Ninth Circuit, in *Panaview Door & Window Co.* v. *Reynolds Metals Co.*, 116 U.S.P.Q. 493 (1958) *supra*, p. 11. In *Parkway Baking Co.* v. *Freihofer*

Baking Co., 154 F. Supp. 823, D.C. E.D. Pa. (1947), Chief Judge Kirkpatrick declined to find exclusivity in a license which did not "expressly prohibit" the sales in question.

This is the rule at common law [*Warne* v. *Routledge*, L.R. 18 Eq. 497 (1874); *Center Star* v. *Rossland* (1903), B.C.R. 402] and accords with the view of this Court in *Frost* v. *Corporation Commission of Oklahoma*, 278 U. S. 515, 520-521; 73 L. Ed. 483, 488 (1929) *supra*, p. 8, that a right granted to one does not preclude the making of similar valid grants to others, but is exclusive against one seeking to operate without any grant.

Huber, as a QBA member, was given "a right to the use" of the cooperative's property (Record, p. 21a) which constituted "leave to do a thing"; there was no "contract not to give leave to anybody else to do the same thing." *Heap* v. *Hartley*, 42 Ch. Div. 461, 470 (1889); Ball, *Law of Copyright and Literary Property* (1944) page 531.

The Court below refused to follow these cases in the interest of "uniformity"[27] and held that federal jurisdiction existed under the Lanham Act, as well as by diversity. This holding, it is submitted, is contrary to the law settled by this Court:

> "Of course the party who brings a suit is master to decide what law he will rely upon and therefore does determine whether he will bring a suit arising under the patent law of the United States by his declaration or bill. That question cannot depend upon the answer, and accordingly jurisdiction cannot be conferred by the defense even when anticipated and replied to in the bill." (*The Fair* v. *Kohler Die and Specialty Company*, 228 U. S. 22,

[27] Did the holding that Huber's license is exclusive advance uniformity? And was Federal Law (15 U.S.C. § 1127(a), p. 2a, *infra*, applied in holding (p. 28b, *infra*), that Huber's non-user of a private brand since 1939, for more than "two consecutive years," did not constitute abandonment?

25; followed in *Quality Courts United, Inc.* v. *Quality Courts United, Inc.*, 249 F. 2d 790, 1957).

Huber is relegated to his complaint, which refers to no Federal registration, invokes no Federal law except the diversity of citizenship, and pleads no rights except those alleged to exist at common law.[28] State law, it is submitted, governs (*Tas-T-Nut Company* v. *Variety Nut & Date Company*, 245 F. 2d 3, 8, 47 T.M.R. 1073, 1079[29] C. A. 6, 1957; *City Messenger of Hollywood, Inc.* v. *City Bonded Messenger Service, Inc.*, 254 F. 2d 531, 533, 48 T.M.R. 587 C. A. 7, 1958; *Royal Lace Paper Works, et al* v. *Pest-Guard Products, Inc.*, 240 F. 2d 814, 818 C. A. 5, 1957).

The opinion below cites cases indicating a conflict among the Circuit Courts (indeed, between panels of the Second Circuit itself) as to the applicability of state or Federal law to unfair competition cases. It is our submission (1) that state law governs and should have been followed and (2) that the conflict should be resolved by this Court.

The issue raised under this heading involves important questions of Federal jurisdiction and conflicts of laws and calls for the exercise of this Court's power of review.

4. The opinion of the Court of Appeals is incomplete, unclear and confusing.

It fails to take due cognizance of the nature of the collective trade mark which is the main subject of a permanent injunction, and it ignores the obligations of Huber as a member of a cooperative organization and as the holder of a license therefrom which it held to be exclusive.

---

[28] Neither the word "Sunbeam" nor the composite mark has been registered under Federal law, although the Court below, misapprehending the facts, held to the contrary (*infra*, p. 19b).

[29] "Since Federal jurisdiction in this case was based exclusively upon diversity of citizenship, the law of Michigan is controlling". (cases cited).

The opinion and the injunction entered thereon render doubtful QBA's right to continue the institutional advertising of its registered marks in national magazines which circulate in territory licensed to Huber. Also rendered doubtful is the right of QBA members to advertise in papers, or by radio or television, which may reach from adjacent areas into such territory. The stultification of a major objective of the cooperative may thus be accomplished, directly within a major urban area and indirectly elsewhere.

The opinion below acknowledges differences between a collective mark and an ordinary trade mark; it specifically declines any ruling as to the right by Huber, or one holding under Huber, to use that mark at such time as membership shall have ceased (see footnote #22, p. 32b, *infra*), but it grants an injunction, permanent nevertheless, unrelated to either QBA membership or quality control.

In effect, the opinion foists upon Huber the rights, but not the obligations, of an exclusive licensee. It leaves open and unclear the duty owed by Huber to exert due efforts within the vast area made subject to his sole exploitation, a duty which is well established, in the state and Federal courts of New York [*Wood* v. *Lucy, Lady Duff-Gordon*, 118 N. E. 214, 222 N. Y. 88 (1917); *Guardino Tank Processing Corporation* v. *Olsson* (not officially reported), 89 N. Y. S. 2d 691, 696-697 (1949); *Mechanical Ice Tray Corporation* v. *General Motors Corporation*, 144 F. 2d 720, 725, C. A. 2 (1944), and elsewhere (69 C. J. S. p. 778)].

Should Huber be granted exclusivity within the largest and most vital urban area in the country now licensed by QBA and should he be suffered to persist in his purpose neither to exploit "Sunbeam" himself therein nor to permit any other member so to do, the inequality of rights of QBA members will have penetrated to the core of the cooperative.

5. The Court of Appeals has disregarded the findings of fact by the District Court which, unless clearly wrong, and the Court did not so find, is contrary to Rule 52a.

In *Hunter Douglas Corporation* v. *Lando Products, Inc.*, 235 F. 2d 631, 632 C. A. 9 (1956), the Court wrote:

> "Strong almost to the point of vehemence is the expression 'clearly erroneous'. An appellate court should bear this in mind when it applies Rule 52(a) of the Federal Rules of Civil Procedure, 28 U. S. C. A., which provides that 'In all actions tried upon the facts without a jury * * * (f) findings of fact shall not be set aside unless clearly erroneous, and due regard shall be given to the opportunity of the trial court to judge of the credibility of the witnesses.'
>
> "Too often appellate courts have given only lip-service to the rule that, 'Having seen and heard the witnesses, the trial judge is in a better position than an appellate court to pass upon the facts.' Too often reviewing tribunals are tempted to substitute their own fact-judgments for those of the courts of first instance."

In *Graver Tank and Manufacturing Co., Inc., et al,* v. *Linde Air Products Co.*, 339 U. S. 605, 609, 94 L. Ed. 1097, 1103 (1950), this court held:

> "A finding of equivalence is a determination of fact * * *. Like any other issue of fact, final determination requires a balancing of credibility, persuasiveness and weight of evidence. It is to be decided by the trial court and the court's decision, under general principles of appellate review, should not be disturbed unless clearly erroneous * * *. It is not for this court to even essay an independent evaluation of the evidence. This is the function of the trial court."

In this case the trial court found that QBA's refusal to grant exclusivity was not an "oversight" but that a

non-exclusive license was intentionally and purposefully concluded as a "part of the give that went with the take" in the negotiation of a "well fought out agreement."[30] The Court below not only found to the contrary in this regard, but, in finding that Huber does business in Philadelphia, it ignored the finding of the trial court (pp. 8b-9b, *infra*) that Huber's dominant wrapper in Philadelphia is neither the one in issue nor confusingly similar thereto.

In this connection, we cite, also, *U. S.* v. *Yellow Cab Co.*, 338 U. S. 338, 94 L. Ed. 150 (1949) and *Nee* v. *Linwood Securities Co.*, 174 F. 2d 434, C. A. 8, 1949.

The Court in *Panaview Door & Window Co.* v. *Reynolds Metals Co.*, 116 U.S.P.Q. 493, C. A. 9 (1958) (*supra*, pp. 11, 13), pointed out that the credibility of witnesses entered into the trial judge's findings; and that the decision of the trial judge therein, as in the instant case, was based not upon a determination that "the writings were plain" but that, also, as in the case at bar, "there was a trial relating to all the extrinsic circumstances." In that case, the Court held that it was powerless "to make new independent findings upon the evidence which this Court did not hear."

The Court below acted to the contrary and made findings as upon a "trial de novo," in the exercise of a power which the Court in *Panaview* (116 U.S.P.Q. 493, 497), specifically held that it lacked.

CONCLUSION

For which reasons this petition for a writ of certiorari should be granted.

Respectfully submitted,

ROBERTS B. LARSON,
HAROLD GREENWALD,
Attorneys for Petitioners.

[30] *Infra*, p. 5b.

INDEX TO APPENDIX

Appendix A

STATUTORY PROVISIONS

	PAGE
15 U. S. C. §1054	1a
15 U. S. C. §1057(b)	1a
15 U. S. C. §1127	2a
17 U. S. C. §1	2a
15 U. S. C. §13b	2a
New York Cooperative Corporations Law:	
§2	3a
§3	3a
§13	3a
§42	4a
§44	4a

Appendix B

Decision of trial court (June 27, 1956)	1b
Decision of Court of Appeals (February 24, 1958)	10b
Judgment of District Court (June 9, 1958)	35b

APPENDIX A

Statutory Provisions

15 U. S. C. §1054. Collective marks and certification marks registrable.

Subject to the provisions relating to the registration of trade-marks, so far as they are applicable, collective and certification marks, including indications of regional origin used in commerce, shall be registrable under this chapter, in the same manner and with the same effect as are trade-marks, by persons, and nations, States, municipalities, and the like, exercising legitimate control over the use of the marks sought to be registered, even though not possessing an industrial or commerical establishment, and when registered they shall be entitled to the protection provided in this chapter in the case of trade-marks, except when used so as to represent falsely that the owner or a user thereof makes or sells the goods or performs the services on or in connection with which such mark is used. The Commissioner may establish a separate register for such collective marks and certification marks. Applications and procedure under this section shall conform as nearly as practicable to those prescribed for the registration of trade-marks.

15 U. S. C. §1057(b). Certificate as prima facie evidence

A certificate of registration of a mark upon the principal register provided by this chapter shall be prima facie evidence of the validity of the registration, registrant's ownership of the mark, and of registrant's exclusive right to use the mark in commerce in connection with the goods or services specified in the certificate, subject to any conditions and limitations stated therein.

15 U. S. C. §1127. Construction and definitions; intent of chapter.

The term "collective mark" means a trade-mark or service mark used by the members of a cooperative, an association or other collective group or organization and includes marks used to indicate membership in a union, an association or other organization.

A mark shall be deemed to be "abandoned"——

(a) When its use has been discontinued with intent not to resume. Intent not to resume may be inferred from circumstances. Nonuse for two consecutive years shall be prima facie abandonment.

17 U. S. C. §1. Exclusive rights as to copyrighted works

Any person entitled thereto, upon complying with the provisions of this title, shall have the exclusive right:

(a) To print, reprint, publish, copy, and vend the copyrighted work;

15 U. S. C. §13b. Cooperative association; return of net earnings or surplus

Nothing in sections 13-13b, and 21a of this title shall prevent a cooperative association from returning to its members, producers, or consumers the whole, or any part of, the net earnings or surplus resulting from its trading operations, in proportion to their purchases or sales from, to, or through the association.

NEW YORK COOPERATIVE CORPORATIONS LAW
(Consol. Laws, Book 10A)

§2. Declaration of policy.

It is the declared policy of this state, as one means of improving the economic welfare of its people, particularly those who are producers, marketers or consumers of food products, to encourage their effective organization in cooperative associations for the rendering of mutual help and service.

§3. Definitions

(g) The term "net margins" or "net retained proceeds" means the amount by which the undistributed receipts from operations exceed the expenses thereof.

§13. Purposes for which general cooperative corporations may be formed.

A cooperative corporation may be created under this chapter primarily for mutual help, not conducted for profit, for the purposes of assisting its members, including other cooperatives with which it is affiliated, by performing services connected with the purchase, financing, production, manufacture, warehousing, cultivating, harvesting, preservation, drying, processing, cleansing, canning, blending, packing, grading, storing, handling, utilization, shipping, marketing, merchandising, selling or financing of the agricultural and food products of its members or of any by-products thereof, or connected with the acquisition for its members of labor, supplies and articles of common use * * *.

§42. Forfeiture of membership

In accordance with provisions therefor in the by-laws, any person shall forfeit his membership upon proof that he has ceased to be engaged in the occupation or occupations for the servicing of which the corporation was formed, or has ceased to have the qualifications requisite for membership; and shall upon such notice and terms as may be prescribed in the by-laws, surrender his membership certificate or his shares of stock upon payment of the par or otherwise designated value thereof and of any accrued dividends thereon, as may appear in the accounting at the end of the current fiscal year.

§44. Voting by members

Except as otherwise provided in this chapter and section two hundred fifty-eight-*l* of the agriculture and markets law, each member shall be entitled to one vote only and no vote by proxy shall be permitted.

APPENDIX B

Decision of Hon. Lawrence E. Walsh, D. J. June 27, 1956

. . . . . .

At the outset I would like to thank counsel for all the parties for the assistance they have given the court, and I think the preparation in this case and the skill and help in the presentation of the law have been exceptional.

I am sorry that I cannot decide in favor of all the parties. I have got to decide in favor of one or against one, and so I am going to dismiss the complaint.

I think that Exhibit 4 as it is attached to the complaint means just about what it says, and that the extensive proof which I have allowed the parties to put in has confirmed the literal meaning of the words rather than thrown doubt about them.

I think that the control exercised by QBA, even though not specified in Exhibit 4, is adequate to make it a valid licensing agreement, and I think that is what it is, and I don't think it is an exclusive license.

Under those circumstances I do not see any basis for the plaintiff's action. QBA had the right to license to Stroehmann and exercised that right. The goodwill that Huber built up in his use of the mark and the wrapper and the campaign he built up knowing that it was a collective mark and knowing that he built it up with those risks.

Now I am perfectly glad to go over the facts on which I come to this conclusion, and if Mr. Austin or if counsel for the other parties see any apparent error and they want to move for reargument, why, I will be glad to hear them. They put a lot of work into this case.

Most of the underlying facts here are not really in dispute. It is the conclusions of fact to be drawn from them.

QBA was founded in the 1920's. It is a cooperative association. For several years it tried to develop a national loaf its individual members could market locally, but which would have the advantage of national fame and be recognized, I suppose, by persons who come from one community to another, as bread that is of equivalent quality with that which they were accustomed to.

QBA tried several brands and they were not satisfactory. From 1939 to 1942 they were working on the idea of a brand with the little girl, with a trade-mark using the head of a little girl, and in the last year of this work, why, Mr. Huber became interested in QBA and primarily because he was in need of a fresh advertising approach himself.

QBA wanted a new member, and QBA wanted a chance to get started on its national campaign, and the latter objective was not easy. It was during the war. There was chance that restrictions would interfere with the campaign if any member undertook to get it going, and it would require the member to break with his old campaign, and it also meant an outlay of money.

Well, it so happened that Mr. Huber was in a position to minimize these hardships. He had been doing business with a large number of brands. He wanted to concentrate

his goodwill on one brand, and it was his view that from his own business point of view it was a good time to do it notwithstanding the risk on restrictions.

Therefore, he was an answer in a sense to the QBA prayer.

Now, it meant that QBA had to work out something that Mr. Huber wanted to sell his own product under, and that they had to try to work out something which would satisfy them for use in the development of a national mark, and that is why Mr. Graf had the lengthy conferences with Mr. Huber in the end of 1941 and early '42. That is why he pursued him to Florida, trying to sell him on his thing.

Incidentally, with no reflection on Mr. Graf, he is a great salesman, and a lot of times when you see in this correspondence "your Sunbeam wrapper" and "your this" and "your that", I think a lot of it should be credited to an overdose of Dale Carnegie rather than giving away the assets of QBA.

But he went after Mr. Huber, trying to be as persuasive as he could, and Mr. Huber had a pretty good sense of what he wanted in his own business, and he was not going to give anything away either.

In the end, after these three or four conferences—and I don't think it makes any great difference exactly how it came about or exactly what Mrs. Huber said at the moment—Mr. Huber encouraged the use of the development of a wrapper with the sketch in it that we all know now of the little girl, and Mr. Huber also convinced Mr. Graf that the use of Sunbeam in connection with it was not only ideal for Mr. Huber's situation, but would be good for the development of a national wrapper and mark as well.

So they decided to go ahead and break this campaign with Mr. Huber, and there is no doubt that at the beginning

Mr. Huber was putting up money for those plates on his own and if nobody else came along he was going to be stuck for the full amount, full cost of those plates.

He was gambling in a sense along with QBA.

On the other hand he was getting, without cost, all of the art work, all of the advertising thought that had gone into the prior work on the development of a national mark.

That has real value and if Mr. Huber had wanted to do it himself and develop his own mark, why, he could have done so, but he, to get the advantage of that, was perfectly willing to, in a sense, share the product, share the wrapper and to share the trademark. He was going to at least share the benefit of the goodwill that would develop from the exploitation of it. He was going to go along and use a mark and wrapper and advertising campaign which he knew was the creation of QBA, which belonged to QBA, and which QBA was going to license to other members.

Undoubtedly Mr. Huber wanted the exclusive right to use all three things in his territory and undoubtedly he insisted rather consistently that he had.

But the fact is that he never got that into the agreement which he finally agreed was to formalize his relationship with QBA, and I really think that when he gave up in his effort to get that into the formal agreement he decided he was going to take a chance on the unlikelihood that QBA would ever have another member competing in the area which he served.

I think he testified, or he and Mr. Dare in almost an aside in their testimony, that they understood that QBA did not have competing members. And I think that they thought that certainly the danger of any more than fringe competition was minor, that certainly QBA was not going to take for membership another baker in Wilmington, and

what might happen in Camden in the absence of an agreement was something else again.

Exhibit 4 is a compromise. Mr. Huber has the right to use this mark and wrapper and campaign in an area beyond that which he was serving at the time he got the right, and as an exception to the standard QBA policy. He got that, but he did not get the exclusivity that he wanted to have go with it.

I cannot believe that this was an oversight because, as I recall the correspondence prior to the execution of this Exhibit 4, Mr. Strochmann had raised the question—I mean, the shadow was there of the trouble to come, and all of the parties must have realized that if the agreement did not provide for exclusivity it was leaving out something of importance.

There is one other thing: As I recall the correspondence down through about May of 1944, the Huber letters insisted both on assignability and exclusivity, and then in about July there came a letter that only had assignability in it.

I just assume that that reflects part of the give that went with the take.

There is a far from perfect pattern of consistency in all of this correspondence going back and forth. I mean, you have got the Dale Carnegie touch every now and then that goes with a good organizer, and you have also the correspondence of Mr. Kelley after the execution of this agreement, and which he as president of QBA seems, although I don't think he quite does it expressly, at times to acquiesce in Mr. Huber's vigorous assertions of exclusivity.

But I just don't think that that proof, although I have admitted it and I believe it should stay in the record, I just don't think that it has the weight to attack this carefully negotiated, perhaps far from perfect, but at least well fought out agreement.

I think that whatever rights Mr. Huber may have gotten when he opened this campaign in 1942—in other words, just assuming for the sake of argument that in 1942 in his area, as the prior user of this mark and exclusive user of this mark, notwithstanding the way in which he got it, he had rights, I think that when he signed Exhibit 4 he estopped himself from any claim of common law rights. His rights were then limited to those given him in Exhibit 4, and I think that the recital there, the recognition of ownership in QBA, the taking of a license itself all support that conclusion that he had estopped himself.

I think that it was really consistent with the whole course of conduct which he followed, by not only the agreements that he signed, but in the conduct, the use of the QBA ads, the acquiescence with respect to the doughnut box, telling his wax paper manufacturer to put the trade-mark notation back on the, I guess it was the Old Time wrapper; all of those things show that he had acquiesced, I think, in the QBA unrestricted ownership of this mark and in his position as a licensee under it.

Now, beyond that, beyond the dealing as between the parties here, their estopping each other more or less privately, there is the picture of what the public thinks about all this. We are having marks developed here which the public relies on, and even if Mr. Huber, for example, had kept a scrupulous position in his private correspondence, saying this is my mark and I own it, and QBA is my licensee, or that Stroehmann was his licensee, then, if he advertises to the public and suggests to the public that Miss Sunbeam and the Sunbeam trade-mark and wrapper symbolize participation in this nation-wide Cooperative and the keeping up of its standards and the use of its laboratory and all of those things, why then I think he is estopped to now try to give the wrapper and mark some inconsistent meaning.

The other principal question, other than whether QBA gave him exclusive rights under the contract, the other principal question is whether Exhibit 4 had adequate provision for control or whether it was invalid as a license or could not operate as a license because of release of control.

Well, I agree with the view that Mr. Myers and Mr. Litwin have taken, that the question is, is there control in fact, not whether the agreement specifies control. In other words, you don't have to write it in as a condition of the agreement as long as the agreement is in the framework of membership in a cooperative such as QBA with the pledge that QBA members take with the membership agreement that they sign and with the unbroken practices which they follow.

I think that those controls are adequate to protect QBA's assertion that Mr. Huber is using its collective mark and wrapper and campaign.

As far as the provision in Exhibit 4 permitting the assignment to another person who takes over, if one ever does, the Huber business or the implication that Mr. Huber would be permitted to use this mark and wrapper and campaign even after he ceased to be a member of QBA, all I can say is that that was the seeming inconsistency which led me in the first place to take in all the parol evidence that I did. It did seem inconsistent with the whole pattern of the agreement, and I think it can only make sense if you read it in a way which will not attribute an intent to the parties to foist deceit or confusion on the public, and that would mean, I suppose—and we don't have to cross this bridge, and probably the less I say about it the better, but it would mean, I suppose, that if the contingencies ever arose that the parties contemplated, that in some way these assets could be used, which would avoid confusion or deceit to the public, and that would be something, I sup-

pose, that would have to be worked out if that contingency ever arose, to see whether they could in fact do that in a way which would be effective. But if there is any conflict between that provision and the conduct of the parties since that agreement was signed, then I think that the public's rights must be preserved, and that the plaintiff would be estopped to take advantage of that provision if it could not be done with the avoidance of deceit and confusion of the public.

In mentioning the acquiescence of the plaintiff in the claims of QBA, of course, I think it is significant that even in his own trading area he acquiesced in the forming or at least was informed and did not protest—I guess that would be acquiescence—in the forming by QBA of a corporation called Sunbeam Bakers, Inc., and the registration of that corporate name.

These are things which I think are all consistent with QBA's pattern, that these assets were its own and to be developed for the use of all of its members rather than for the development for the use by any single individual member.

My conclusion—this may not be a relevant finding, but inasmuch as you never can tell what course this litigation will take, and it may be of some value at some time, I will say that I do think that the Stroehmann Sunbeam wrapper and the Huber Sunbeam wrapper resemble each other closely enough to cause confusion. This is not true with respect to the Huber Old Time loaf.

It is also my recollection of the testimony that Huber's bread is sold in Philadelphia with the white wrapper, but that the predominant Huber loaf is the Old Time loaf, and it is my recollection that the advertising discs and the radio broadcasts that Mr. Dare testified about, were changed when they were used in the Philadelphia Station

to put in the Old Time loaf in the commercials rather than the straight Sunbeam commercial.

I think I could summarize it then by saying that the mark, wrapper and advertising campaign are the creation and property of QBA, that there was no agreement to give plaintiff an exclusive license in his territory or any territory; that there was no intent by QBA to abandon ownership and control of the little girl, the name "Sunbeam", "Miss Sunbeam", or the composite wrapper in plaintiff's territory or anywhere else, and that no such abandonment occurred.

I think that the plaintiff is estopped to claim ownership because he has accepted a license for the use of these assets, and the license recites his recognition of QBA ownership, and since receiving that license he has virtually consistently acquiesced in the control of QBA and I can't recall any real important event manifesting an act inconsistent with that control.

I think that the quality controls exercised by QBA are adequate and that they conform with the requirements of the statute, that there was acquiescence in them, and that I conclude as a matter of law that the license need not itself specify the quality controls if they actually exist.

Accordingly, QBA has a right to license Stroehmann, the Stroehmann license is valid, and the plaintiff has no cause of action against either.

* * * * *

Decision of the United States Court of Appeals for the Second Circuit

Before:

MEDINA, HINCKS and WATERMAN,
Circuit Judges.

Huber Baking Company appeals from a judgment of the United States District Court for the Southern District of New York, Lawrence E. Walsh, *J.*, dismissing its complaint seeking an injunction against alleged trademark infringement and unfair competition by Stroehmann Brothers Company and seeking an injunction against alleged contributory infringement by Quality Bakers of America Cooperative, Inc. Opinion below not reported. Reversed and remanded.

APPELL, AUSTIN & GAY, New York, N. Y. (Cyrus Austin, Rogers, Hoge & Hills, and Lenore B. Stoughton, New York, N. Y., of Counsel), *for plaintiff-appellant.*

NIMS, MARTIN, HALLIDAY, WHITMAN & WILLIAMSON, New York, N. Y. (John Dashiell Myers and Henry Temin, Philadelphia, Pa., and Carl B. Shelley, Harrisburg, Pa., of Counsel), *for defendant-appellee Stroehmann Brothers Company.*

GREENWALD, KOVNER & GOLDSMITH, New York, N. Y. (Harold Greenwald and Harry Litwin, New York, N. Y., of Counsel), *for defendant-appellee Quality Bakers of America Cooperative, Inc.*

MEDINA, *Circuit Judge*:

This is an appeal from the trial court's dismissal of plaintiff Huber Baking Company's complaint. Huber sought an injunction against defendant Stroehmann Brothers Company's alleged trademark infringement and unfair competition, and against the licensing of certain trademarks by Quality Bakers of America Cooperative, Inc. for use in an area allegedly reserved for Huber's exclusive use. Huber also sought an accounting and damages.

The facts, none of which are in serious dispute, are as follows:

QBA, the successor of a similar association founded in 1924, is a non-profit cooperative organized under the laws of New York to help promote the business of its baker-members located throughout the United States. QBA itself does not bake, sell or distribute any baked goods, but it does gather information, furnish advice, and to some extent supervise the baking, sale and local distribution of the products of its members. In connection with its merchandising services QBA, during the 1920's and 1930's had attempted to promote a cohesive marketing program involving the use by its several members of a common wrapper design, with minor variations in the design as each member desired. The advantages of such a program were twofold: the pooling of members' advertising budgets made possible the economies inherent in the mass purchasing and printing of materials; and the establishment of a "national brand" of bread, resulting from the local advertising of individual members and the use of radio, billboards and magazines throughout the United States, would inure to the benefit of each member. Prior to 1940 four different wrappers had been designed by QBA and used by its members,

but without any marked success. In 1938 QBA began research to design still another wrapper. It was decided that the picture of a child would possess the characteristics necessary for a sufficiently distinctive and attractive mark, and the designing efforts thereafter were centered mainly on the selection of an appropriate picture or drawing.

In 1941, while the preparatory work for the new trademark was still in progress, QBA's advertising manager communicated with Huber's president with a view to inducing Huber to join QBA. At this time, and at all times since, Huber, a Delaware corporation founded in 1913, baked and marketed various types of bread and rolls and had its only factory in Wilmington, Delaware. Huber distributed its baked goods throughout Delaware and in parts of Maryland, New Jersey and Pennsylvania.

In 1913 Huber had begun using the words "Sun Beam," printed on a small label against a background of black and yellow squares, as a mark on some of its bread. The label as a whole was registered in the United States Patent Office in 1913, but was used for only a few years. Thereafter, however, Huber continuously sold at least one of its types or varieties of loaves of bread with the mark "Huber's Sunbeam Bread" until 1942, while during this same period, on its several other loaves, it repeatedly experimented with different names and marks, none of which proved to be so successful as to warrant its use continuously. Since the Huber management felt their advertising expenditures were not being used to maximum advantage because of the failure to concentrate on a single brand name with an accompanying mark, they were considerably interested in the advertising program being developed by QBA when the QBA officers invited them to join the cooperative.

Numerous meetings and conversations ensued, with the result that Huber agreed to join QBA and use the mark

which was ultimately developed by QBA. This consisted essentially of a picture of a young girl with golden curls eating a slice of bread. In the course of the discussions, Huber's president had suggested that the name "Sunbeam" be used in addition to the picture and QBA accepted this suggestion. As the promotion campaign developed the little girl was eventually called "Miss Sunbeam," and the bread was advertised nationally as "Sunbeam Bread" with both "Sunbeam" and the girl's picture appearing on every bread wrapper. On the local level each QBA member put his own name on the wrapper in addition to the Sunbeam name and mark; thus Huber's labels and wrappers read "Huber's Sunbeam Bread."

On November 6, 1941 Huber signed a probationary membership agreement with QBA, and on September 14, 1942 "broke" the "Sunbeam campaign" by using the Sunbeam name and mark as described above on all of its bread and rolls. Shortly after Huber's "breaking" this campaign QBA licensed its other members, at the time of trial numbering approximately 100, to use the material in specific areas. These licenses essentially provided that: the member licensee had "a non-assignable and non-exclusive right to employ the trademark and tradename entitled 'Sunbeam' * * * within the limits * * * of the trading area hereinafter specified"; the Sunbeam trademark used by the member was not to be altered "in any manner, whatever, except with the consent of (QBA)"; all material used by the member which related to the Sunbeam advertising was to be purchased from QBA "exclusively"; all rights to the use of the Sunbeam material would terminate upon the licensee's ceasing to be a member of QBA; the member warranted that, at the time of the licensing, he actually served the entire area in which he was licensed to use the Sunbeam material, and the failure to distribute throughout

this entire area would operate as a waiver of the member's Sunbeam rights in the portion not served.

On April 27, 1943, QBA registered the picture of the little girl as a collective trademark in the United States Patent Office, and during 1946 and 1947 also registered a composite of the picture and the word "Sunbeam" in 46 states, including every state in which Huber does business. As further protection for the benefit of all its members, QBA, in 1948, formed corporations under the name "Sunbeam Bakers, Inc." in most of the states of the United States, and in addition, beginning in 1952 QBA obtained copyright registration for several of its wrappers and labels as a whole and for its advertising material.

From a time shortly before Huber began using the "Sunbeam campaign" until the date of trial, Huber had made full use of the services and facilities which QBA offered member-bakers. Thus Huber periodically submitted sample loaves of its bread to the QBA laboratory to be checked and "scored" against the loaves of other members; it sent periodic sales records to the QBA offices; QBA sanitarians regularly inspected the Huber bakery and helped it maintain certain minimum sanitary conditions; and Huber had the mills from which it bought flour submit samples to the QBA laboratory so that its technicians might check whether the grade of flour was what it was represented to be, and also to inform Huber of the baking method that would achieve the best results with the flour in each shipment.

Prior to December 26, 1944, however, Huber and QBA had not entered into a formal written agreement specifying Huber's rights to the use of the Sunbeam campaign. Huber wanted an exclusive right, assignable to any purchaser of its business, to sell Sunbeam bread and rolls within an area over and beyond that which it was then serving, and it was willing to assign to QBA all its rights

to the word "Sunbeam" outside of this area. In April, 1944, QBA submitted the standard form Sunbeam license to Huber, which Huber would not sign because it was therein provided that Huber's rights to the Sunbeam material were "non-assignable and non-exclusive." QBA attorneys thereafter drafted several other contracts, along with a form for the assignment by Huber to QBA, before producing one which met with Huber's approval. Both the contract and assignment, prepared by QBA counsel, were signed by Huber on December 26, 1944.

The assignment, although containing the recital that it was an agreement entered into between Huber and QBA, was signed only by Huber and provided that for a valuable consideration Huber did "sell, assign, transfer and set over unto Quality Bakers of America Cooperative, Inc., the entire right, title and interest in and to the label" entitled "Huber's Sunbeam Bread" and "each and every part thereof, * * * reserving unto itself, however, the full and unrestricted right to the use of the same within the limits of the trading area hereinafter specified: The entire State of Delaware, together with such portions of the States of Maryland, Pennsylvania and New Jersey" as were indicated on an attached map, "including the City of Philadelphia, * * * even though some of the said territory is not at present served by the Huber Baking Company."

The contract, signed by both Huber and QBA, differed from the standard form of license already in use by QBA with its other members for approximately two years in the following respects: Huber was given "the right to assign the use of said work of art trade-mark, label, and package, 'Sunbeam' campaign, and all and each of the same to any organization which may purchase the Huber Baking Company outright and continue its operations in the trading area designated"; Huber had to buy all of

its Sunbeam advertising material from QBA, "unless it is to the Huber advantage to purchase otherwise"; the statement limiting Huber's "Sunbeam" trading area was identical with the area within which Huber reserved rights in the assignment previously described, although Huber was not then serving that entire area; Huber was given the right to alter the "Sunbeam" mark without the consent of QBA "at such time as Huber may cease to be a member of (QBA)"; Huber was given "the right to the use of said work of art, trade-mark, label and package, 'Sunbeam' campaign, and all and each of the same within the limits of the trading area hereinafter specified."

Defendant Stroehmann Brothers Company, a baking company incorporated in Pennsylvania, had for several years prior to 1942 been a competitor of Huber in Philadelphia. *Stroehmann for many* years had been a member of QBA, but, both before and after the launching of QBA's "Sunbeam campaign," it sold bread in Philadelphia under marks other than "Sunbeam." In January, 1944, however, eleven months before Huber's written agreement with QBA, Stroehmann sought QBA's permission to use the little girl alone as a mark on some of its bread to be sold in Philadelphia. At Huber's objection, QBA denied Stroehmann's request. Thereafter, until December 12, 1951, Stroehmann repeatedly sought to have its Sunbeam license extended to include Philadelphia, but in each case Huber's objection prevailed. On this latter date, however, the license was extended to Philadelphia after Stroehmann entered into an indemnity agreement for an unlimited amount with QBA to pay all claims against QBA arising out of this extension of the license, but Stroehmann was not authorized to attempt to sell to any Philadelphia merchant who was then buying Sunbeam bread from Huber. QBA granted the extension because, in its view, Huber's license to sell Sunbeam bread within its specified territory

was not exclusive, and also because it was in the best interests of QBA and its members to have greater sales of Sunbeam bread in Philadelphia, Huber's penetration of the Philadelphia market having been limited.

Early in 1952 Stroehmann began selling bread in Philadelphia with the Sunbeam wrapper; the labels differed from those used by Huber only in that "Stroehmann's" appeared over the words "Sunbeam Bread" instead of "Huber's." Shortly thereafter, in May, 1952, Huber filed a complaint in the District Court charging Stroehmann with trademark infringement in using "Sunbeam" and the picture of the little girl, and unfair competition through the use of confusingly similar wrappers and labels in Huber's territory. QBA was charged with contributory infringement and unfair competition because it had licensed Stroehmann to use the Sunbeam marks in Philadelphia and had supplied the wrappers and other materials for such use. Jurisdiction below was based on diversity of citizenship and the requisite amount in controversy, and after a trial in June, 1956, the District Court dismissed Huber's complaint, holding that the QBA license to Huber was nonexclusive.

We note, at the outset, that there is no question as to the similarity of the Sunbeam wrappers and labels used by Stroehmann and Huber in Philadelphia. That such similarity would cause confusion in the minds of customers is not disputed.

Huber, however, claims that it has the exclusive right to use this Sunbeam material, arguing, first, that it owned the mark "Sunbeam" through continuous use prior to joining QBA, that nothing it has done while a member of QBA has diminished or impaired this ownership, that the picture of the little girl and other embellishments developed by QBA have become part of one indivisible "Sunbeam"

mark, and that Huber thus owns the right to use the Sunbeam material within the territory specified in the contract with QBA and the assignment. As a second argument, Huber urges that a proper construction and interpretation of the contract and assignment, both executed on the same day, show that QBA contracted to give Huber the exclusive right to use the Sunbeam material within the territory specified therein.

QBA and Stroehmann, on the other hand, contend that, since QBA created the picture of the little girl and registered this as a collective trademark, it continuously maintained control over all of its licensees, and, the girl's picture and the word "Sunbeam" having become inseparably connected, QBA owns the entire "Sunbeam" campaign, and that the license it granted Huber was non-exclusive in the absence of a specific provision that it was exclusive. In addition, they claim that Huber is estopped to claim an exclusive license because it acquiesced in QBA's advertising campaigns and submitted to control by QBA.

A basic claim by QBA and Stroehmann, which prevailed below, is that the contract shows on its face that it is a license agreement and that it is settled law that, in the absence of a clause specifically stating that the license is exclusive, it will be conclusively presumed to be non-exclusive. QBA and Stroehmann insist that this disposes of the case, and that the prior dealings and relationship of the parties and the signing by Huber of the assignment of the mark Sunbeam on the same date upon which the agreement was signed are without significance or effect.

Before we examine those cases principally relied on by QBA and Stroehmann, however, we must first consider the choice of law problems presented by the facts of this case. Jurisdiction in the court below was based on diversity of citizenship, and, therefore, it would seem that in view of

the decisions of the United States Supreme Court in *Erie R. Co.* v. *Tompkins*[1] and *Klaxon Co.* v. *Stentor Electric Mfg. Co.*[2] one should turn to the whole law of New York, as a New York court would do, to determine the controlling rules of decision for the case at bar.[3] But it has also been suggested, and indeed on sound reason, that it is the source of the right sued on rather than the basis of federal jurisdiction which determines the law governing a particular case.[4]

Bearing this principle in mind we turn now to another aspect of the case at bar. Although the parties to this action recognized that diversity afforded one basis for jurisdiction in the District Court, jurisdiction also existed under the Lanham Act[5] since the controversy involves a mark registered pursuant thereto. In this case, moreover, not only was the composite mark used in the "Sunbeam campaign" registered under the Lanham Act[6] but, since a collective mark was unknown to the common law,[7] it is actually a creature of federal statute. That the common law did not recognize such a mark is apparent from the nature of the mark itself. A collective mark is owned, and may be

---

[1] 304 U. S. 64.

[2] 313 U. S. 487.

[3] Compare *Auten* v. *Auten*, 308 N. Y. 155, 124 N. E. 2d 99, with *New Amsterdam Casualty Co.* v. *Stecker*, 3 N. Y. 2d 1.

[4] *Maternally Yours, Inc.* v. *Your Maternity Shop, Inc.*, 2 Cir., 234 F. 2d 539, 540 n. 1; Hart & Wechsler, The Federal Courts and the Federal System (1953) 697.

[5] 15 U. S. C. Section 1121; *Maternally Yours, Inc.* v. *Your Maternity Shop, Inc.*, footnote 4, *supra*.

[6] 15 U. S. C. Section 1051 *et seq.*

[7] Nims, The Law of Unfair Competition and Trade-Marks (1947) 130.

registered, by the group or association of which it is a symbol,[8] but not by a user thereof, and it indicates to the public that members of the association produced the merchandise bearing the mark. The association which owns the mark may not use it on merchandise, if it produces any, as may its members.[9] Since the common law required affixation[10] and user[11] for the acquisition of a trademark it is clear that there would be no basis in that law for a collective mark, and indeed such marks were denied registration under the Trade Mark Act of 1905.[12] However, a 1938 amendment[13] to the Act of 1905 provided for the registration of collective marks[14] and the Lanham Act included a similar provision.[15]

In view of the principle that the source of the right sued on is determinative of the controlling law, and since a federal statute provides the essential basis for all rights in the collective mark "Sunbeam" as developed by QBA and used by its members, we see no alternative other than to regard the questions necessarily involved in the use of a

---

[8] 15 U. S. C. Section 1054.

[9] Callmann, The Law of Unfair Competition and Trade-Marks (1950) 1040.

[10] E.g., *Phillips* v. *Hudnut*, D. C. Cir., 263 Fed. 643.

[11] E.g., *Western Stove Co.* v. *Geo. D. Roper Corp.*, S. D. Cal., 82 F. Supp. 206.

[12] Act of Feb. 20, 1905, c. 592, 33 Stat. 224; *Ex parte Foreningen Sveriges Spisbrodstabrikanter*, 6 U. S. P. Q. 27 (1930).

[13] Act of June 10, 1938, c. 332, §1, 52 Stat. 638.

[14] See *Ex parte International Union United Automobile Workers of America*, 54 U. S. P. Q. 52 (1942).

[15] 15 U. S. C. Section 1054.

collective mark as within the ambit of federal law.[16] The desirability of applying a uniform federal law in this area is manifest. For example, questions of the degree of control over members required for the validity of a collective mark under 15 U. S. C. Section 1054 are federal questions, involving as they do the interpretation and application of a federal statute, and indeed uniformity of decision on such a question is necessary as a guide to the determination by the Patent Office of what marks are to be registered. It is inconceivable that, in cases involving these questions, the law of individual states with regard to the control necessary for the valid licensing of an ordinary trademark[17] is to be applied by the federal courts when such rules may lead to widely varying results. Likewise, although a contract or license may be thought of as existing under the common law as applied by the several states, where, as in the case at bar and as is likely with many similar associations, an organization using a collective mark has licensed members throughout the United States, a uniform interpretation of those licenses is desirable. Clearly, such a result is best achieved by the application of federal law,[18] although the precise rules of decision in many areas of the law have not yet been formulated. Moreover, a contract

---

[16] See *Brown & Bigelow* v. *Remembrance Advertising Products, Inc.*, 279 App. Div. 410, 110 N. Y. S. 2d 441, aff'd 304 N. Y. 909, 110 N. E. 2d 736, where the court stated, without citation of authority, that in a suit for trade-mark infringement "all questions as to validity and infringement of trade-marks registered under the United States statutes are to be determined by Federal statutory and decisional law." 279 App. Div. at 412, 110 N. Y. S. 2d at 444; see also Developments in the Law—Trade-Marks and Unfair Competition, 68 Harv. L. Rev. 814, 876-77 (1955).

[17] See, e.g., *E. F. Pritchard Co.* v. *Consumers Brewing Co.*, 6 Cir., 136 F. 2d 512, 519; *Koebler Weyl Baking Co.* v. *J. S. Irvins' Son*, E. D. Pa., 7 F. Supp. 211, 214.

[18] *Cf.* concurring opinion of Chief Judge Clark, *Maternally Yours, Inc.* v. *Your Maternity Shop, Inc.*, 2 Cir., 234 F. 2d 538, 545.

or license between an association registering a collective mark and its members is absolutely essential to the existence and use of the collective mark, while this is not true of an ordinary trademark.

But regardless of whether federal or state law is controlling in the case at bar, we do not think the case law on the subject supports the arbitrary rule of interpretation for which QBA and Stroehmann contend, as above stated, and we conclude that the agreement is governed by the same rules as are applicable to the interpretation of contracts generally. We turn to a consideration of the decisions relied upon by QBA and Stroehmann.

In *Overman Cushion Tire Co.* v. *Goodyear Tire & Rubber Co.*, 59 F. 2d 998, cert. denied 290 U. S. 681, this Court held that the petitioner-licensee did not have the right to participate in the damages recovered by its licensor against a patent infringer since it did not have an exclusive license. There, however, the license was held to be non-exclusive because the patentee expressly reserved the right to grant another license to one of several other parties. And in *Western Electric Co.* v. *Pacent Reproducer Corp.*, 42 F. 2d 116, another case involving the rights of a licensee to join its licensor in suing a patent infringer, this Court held that "an obligation that the grantor will not thereafter grant any similar license is * * * clearly to be implied" from the grant of "all the rights which (the grantor) now has or may hereafter have (under the patents) to exclude others" from using the patented devices, 42 F. 2d at p. 119, and rejected the patentee's argument that it had transferred only its remedies against infringers without granting the equivalent of a license. There is nothing in these cases to indicate that ordinary rules regarding the interpretation of contracts are to be ignored when the agreement is called a "license."

QBA and Stroehmann also rely on three decisions from other jurisdictions in support of their contention that Huber's license was non-exclusive. These decisions are readily distinguishable from the case at bar, they are not persuasive when applied to the fact situation now before us, and, in addition, it is not clear that they formulate a rule of state law even if state law be applicable to the Huber license.

Two of the cases involve the interpretation of contracts establishing sales agencies. In *Dahath Electric Co.* v. *Suburban Electric Development Co.*, 332 Pa. 129, 2 A. 2d 765, the contract in question made the plaintiff the selling agent within a specified territory for goods which the defendant distributed, and also contained the usual integration clause stating that the contract contained the entire agreement between the parties. There was no provision regarding the exclusivity of the plaintiff's agency, but, when the defendant authorized a third party to sell goods in the same area as that specified in the plaintiff's contract, the plaintiff sued to compel the defendant to pay the commissions which would have been due the plaintiff had it made the sales which were made by the third party. The theory on which the plaintiff sought to recover the commissions was that it had an exclusive sales agency in the designated area, but the court held that the contract provided for a non-exclusive agency, reasoning that the contract was not ambiguous since, if the parties had intended to create an exclusive agency, the writing would have specifically contained such a provision. *J. I. Case Threshing Mach. Co.* v. *Wright Hardware Co.*, 61 Tex. Civ. App. 481, 130 S. W. 729, is another case involving similar facts and in which the court reached the same result as in *Dahath*.

And in *Hart* v. *Cort*, 165 App. Div. 583, 151 N. Y. S. 4, the court held, in a three to two decision, that evidence

of custom in the theatrical trade was not admissible to show that a contract licensing the defendant to present a certain play, and naming the leading actress who was to appear in every performance, was an exclusive license. The majority opinion discussed at length the rule regarding the admission of evidence of custom to aid in the interpretation of a contract and decided that it was not admissible in the case before it because such evidence would have had the effect of adding another term to the contract. The dissent, on the other hand, viewed the contract as ambiguous and considered the evidence regarding custom as an explanation of the phrase in the contract giving defendant "the right to represent the said play." 165 App. Div. at page 589, 151 N. Y. S. at page 8.

Another difficulty with the statement of law in these Pennsylvania and New York cases as applied to the facts of the case at bar, is that there are other cases in those states the rules of which, when applied to the Huber license, would lead to a contrary result. Thus in *Home Builders of Mercer County, Inc.* v. *Dellwood Corp.*, 379 Pa. 255, 108 A. 2d 731, the court, after stating the rule of the *Dahath* case, also notes that any doubt in the interpretation of a contract is to be resolved against the party who drew it. In the *Dellwood* case that rule led to the same result as did application of the *Dahath* rule, but in the case now under consideration it leads to the opposite result. Likewise, in *Deveso* v. *Chandler*, 210 App. Div. 684, 206 N. Y. S. 604, the court distinguished *Hart* v. *Cort*, *supra*, and said that evidence of custom is admissible when it "would merely * * * (add) a provision covering a point upon which the contract was silent." 210 App. Div. at page 689, 206 N. Y. S. at page 607. Application of this rule stated in *Deveso* would also show that the contract here read alone, does not provide for a non-exclusive license, but rather is ambiguous.

And, as stated above, we are not persuaded by these cases and therefore cannot accept, as a rule of law, the argument of appellees that a license without provision as to exclusivity is necessarily and under any and all circumstances non-exclusive. The license in the case at bar did not contain an integration clause as did the agreement in *Dabath* and there is considerable evidence, in addition to the course of dealings between the parties and the circumstances under which Stroehmann finally induced QBA to permit it to enter the Huber territory, such as the terms of the assignment regarding Huber's "full and unrestricted right" in the specified territory and the specific provision in all of QBA's licenses with its other members that the licenses were non-exclusive, to support Huber's position that its contract with QBA actually provided for an exclusive license. Nevertheless, the agreement itself, when read alone and not in conjunction with the assignment simultaneously executed, is still, in our opinion, ambiguous with regard to the exclusivity of Huber's rights.

Since the contract is ambiguous on its face we must look at the circumstances surrounding its formulation in aid of interpreting the agreement. Nevertheless, Huber's contention that the contract and assignment should be read together might, at first, seem anomalous in that it urges construction of a bilateral agreement in the light of a unilateral assignment. Thus by means of the assignment, which purports to transfer rights to QBA, Huber is seeking to influence the interpretation of the contract. But this assignment was not a mere gratuity, given as a self-serving document by Huber. It was something which, as the minutes of QBA's directors' meeting state, QBA wanted in exchange for the unusual rights to the use of the Sunbeam campaign it granted Huber in the contract. And in allowing Huber to reserve "full and unrestricted" rights

in the specified territory, the assignment is indicative of the intention of the parties at the time of executing the instruments.

We conclude that the contract and the assignment should be read together, and that both instruments should be read in the light of the exclusive right which Huber, prior to its assignment to QBA, had to the mark "Sunbeam" in the reserved territory, and against the circumstantial background to which reference has been made. We hold that under the contract so construed it was reasonably plain that Huber was intended to have the exclusive use to the Sunbeam campaign in the designated territory.

At this point it is well to consider some general principles of trademark law. Trademark rights are acquired by use, or appropriation, *Hanover Star Milling Co.* v. *Metcalf*, 240 U. S. 403; *United Drug Co.* v. *Rectanus Co.*, 248 U. S. 90; *Jacobs* v. *Iodent Chemical Co.*, 3 Cir., 41 F. 2d 637, and registration alone of the trademark does not increase the scope of such substantive rights. The area throughout which rights thus acquired by use will be protected, however, has not been clearly defined by the cases. Under modern conditions, with vastly increased means of communication and the use of advertising media of a far-reaching character, many recent cases have afforded the holder of a trademark protection throughout a greatly extended area when the holder's business reputation and prestige are widespread, provided always that the rights of the public are fully protected. *Stork Restaurant* v. *Sahati*, 9 Cir., 166 F. 2d 348; *Ambassador East, Inc.* v. *Shelton*, S. D. N. Y., 120 F. Supp. 551; *Brass Rail, Inc.* v. *Ye Brass Rail of Massachusetts, Inc.*, D. Mass., 43 F. Supp. 671; *Maison Prunier* v. *Prunier's Restaurant & Cafe, Inc.*, 159 Misc. 551. However, in those cases where, as in the case at bar with regard to Huber's "Sunbeam" mark prior

to 1942, there was no evidence of nation-wide advertising or reputation courts have held that trademark rights limited to those states throughout which the holder's goods have been sold to the public, *Hanover Star Milling Co.* v. *Metcalf, supra; United Drug Co.* v. *Rectanus Co., supra;* see also, *American Chicle Co.* v. *Topps Chewing Gum, Inc.*, 2 Cir., 210 F. 2d 680, 682; *Miles Shoes, Inc.* v. *R. H. Macy & Co.*, 2 Cir., 199 F. 2d 602, 603, cert. denied 345 U. S. 909, or the holder's salesmen have traveled. *Youthform Co.* v. *R. H. Macy & Co.*, N. D. Ga., 153 F. Supp. 87.[19] Thus, the rights to a trademark extend throughout the entire territory actually served by the owner, or covered by his advertising, and also, it would seem, at least to an area which would provide room for probable or anticipated expansion. See *Hanover Star Milling Co.* v. *Metcalf*, 240 U. S. at page 415; *Food Fair Stores, Inc.* v. *Food Fair Stores*, 1 Cir., 177 F. 2d 177; *Triangle Publications, Inc.* v. *Central Pub. Co.*, W. D. Mo., 117 F. Supp. 824. In view of these principles, Huber, prior to its use of QBA's "Sunbeam campaign," probably had the right to "Sunbeam" as a trademark throughout the entire area in which it expressly reserved full and unrestricted rights in the assignment which it gave QBA. Although Huber sold few, if any, of its products in Camden, New Jersey, and its sales in Philadelphia were largely confined to the southwest portion of that city, Huber did serve more than 1150 Philadelphia grocers

[19] Where a prior appropriator of a trademark on toothpaste confined his sales to one city while, with his knowledge, a junior user of the mark expanded his business throughout most of the state in which this city was located, the court limited the prior appropriator's right to the city in which he sold the toothpaste, *Jacobs* v. *Iodent Chemical Co., supra,* and a District Court opinion has interpreted the *Jacobs* case as limiting the trademark rights to the field actually occupied. *Keebler Weyl Baking Co.* v. *J. S. Irvins' Son, Inc.*, E. D. Pa., 7 F. Supp. 211; see also *Food Fair Stores, Inc.* v. *Square Deal Market Co.*, D. C. Cir., 206 F. 2d 482.

and it is fair to assume that the Huber "Sunbeam" was widely known in that area.[20] And that Huber was not able to produce any evidence of having sold its "Sunbeam" bread in Philadelphia in the interval between 1939 and the "breaking" of the Sunbeam campaign by Huber on September 14, 1942 is of little significance since the mere non-use for such a short period of time would not constitute abandonment in the absence of an intent to abandon the trademark. *Hanover Star Milling Co.* v. *Metcalf*, 240 U. S. 403, 419; *Dupont Cellophane Co.* v. *Waxed Products Co.*, 2 Cir., 85 F. 2d 75, 76-77, cert. denied 299 U. S. 601; *Wallace & Co.* v. *Repetti, Inc.*, 2 Cir., 266 Fed. 307, 308, cert. denied 254 U. S. 639; *Anheuser-Busch, Inc.* v. *Budweiser Malt Products Corp.*, S. D. N. Y., 287 Fed. 243, 245-46, aff'd 2 Cir., 295 Fed. 306. But, regardless of the geographical extent of Huber's trademark rights prior to its breaking of the Sunbeam campaign, and while, of course, Huber could not, by the mere recital of reservation in the assignment, create trademark rights against others generally which it had not theretofore acquired by use, we find no obstacle to the assertion by Huber that, vis-a-vis QBA, these rights were recognized by QBA and that QBA is estopped to claim otherwise.

With regard to what the assignment purports to convey, QBA claims that it dealt only with the copyrighted label as a whole. But this contention does not view the assignment realistically. Although the assignment does refer to the label as a whole, it also specifically transfers "each and every part thereof," and there can be no doubt that the "part thereof" QBA was interested in acquiring was the name "Sunbeam."

---

[20] There is little in the case law on the subject to indicate the extent to which, if at all, geographical subdivision of cities is feasible or desirable in connection with the protection of trademark rights, and we express no opinion whatever on that subject.

We hold that Huber did reserve the exclusive right to use "Sunbeam" vis-a-vis QBA in the territory specified in the assignment. The assignment was accepted, the whole course of dealing between the parties, both before and after the execution of the two documents on December 26, 1944, is a recognition, not only of Huber's exclusive right to use "Sunbeam" in the territory specified but also the exclusive right to use therein the entire Sunbeam campaign, including the picture of the little girl and other Sunbeam advertising prepared by QBA in collaboration with Huber, and Huber acted throughout in reliance on such recognition of its rights. This is all that is necessary to establish an estoppel *inter partes*. See *Kirk* v. *Hamilton*, 102 U. S. 68; *Dickerson* v. *Colgrove*, 100 U. S. 578; *Dair* v. *United States*, 83 U. S. 1.

It is also clear that such an agreement between QBA and Huber to give Huber the exclusive right to use the Sunbeam mark within a specified area was valid and not contrary to the public interest. The division of territory was not designed to, and in fact did not, work a fraud on the public, cf. *Stahly, Inc.* v. *M. H. Jacobs Co.*, N. D. Ill., 87 F. Supp. 48, modified 7 Cir., 183 F. 2d 914, cert. denied 340 U. S. 896; but cf. *Borden Ice Cream Co.* v. *Borden's Condensed Milk Co.*, 7 Cir., 201 Fed. 510, 513, but rather it had "a legitimate business purpose," *Chester H. Roth, Inc.* v. *Esquire, Inc.*, 2 Cir., 186 F. 2d 11, 15, since Huber previously had the right to the use of the trademark "Sunbeam" on bread and related products and had sold its products throughout most of the area reserved to it in the assignment.

There can be no doubt that the mark "Sunbeam" became merged in the "Sunbeam campaign" after the launching of this QBA advertising program. Both Huber and QBA claim that "Sunbeam" and the campaign as a whole are inseparable, and with this contention we are in agreement.

Loonen v. *Deitsch*, S. D. N. Y., 189 Fed. 487 and *Layton Pure Food Co.* v. *Church & Dwight Co.*, 8 Cir., 182 Fed. 24, holding that a manufacturer can use, and protect as a trademark, more than one independent mark on the same product or wrapper are not in conflict with this position. In *Loonen* the Court held that, since the mark in question was larger and had been placed in a more prominent position on the product than two other symbols, it was certainly a valid trademark, and in the *Layton Pure Food Co.* case the court merely upheld the complainant's right to adopt two distinct markings as trademarks on the same package. These cases rest on the basic principle of trademark law that any symbols which, through adoption and use, have become associated with and have identified a product in the public mind can be protected as a trademark.

In the case at bar, however, the word "Sunbeam" and the girl's picture were given equal prominence in advertising, on bread wrappers and end labels, and the girl was referred to as "Miss Sunbeam." To say that "Sunbeam" is separable from the rest of the promotion campaign is to ignore the function of a trademark as a means of product identification. At the trial below, one witness testified that when she wanted a loaf of Huber's Sunbeam bread she asked her young nephew "to run down to (the grocery store) and get me a loaf of bread with the little girl's picture on it," and he got the "Sunbeam" bread she wanted. There was other testimony by consumers that they looked for the wrapper or the end label with the little girl's picture when they sought "Sunbeam" bread. This, of course, was the inevitable result of the QBA and local-member advertising program which had been in effect for more than two years before Huber executed the assignment.

Accordingly, in the view we take of the case, the acceptance of the assignment, which reserved "full and unrestricted" trademark rights to Huber in the designated

area, and which involved a mark that of necessity had become merged in the overall campaign then in progress, gave rise to a valid and binding estoppel against QBA. In other words, we hold QBA, and necessarily its alleged licensee Stroehmann, estopped to question Huber's exclusive rights, within the territory specified in the assignment, to the use of the "Sunbeam campaign." And as an independent ground of decision we hold that Huber's license construed in the light of the assignment and the pertinent extrinsic evidence carried exclusive right to the Sunbeam campaign in the designated territory.

We cannot agree, on the other hand, with QBA's contention that Huber is estopped, because of its continuous membership in QBA, from claiming any exclusive rights. While we are convinced that QBA exercised sufficient control over Huber's baking operations to protect its trademark as a collective mark,[21] it does not follow that Huber's membership was similar to that of any other QBA member. The differences between the Sunbeam licensing agreement with Huber and the Sunbeam contracts given to other QBA members show the contrary to be true. Among the numerous differences the most important are the failure to specify that Huber's license is non-exclusive, a term which appears in the license agreements with all the other members, and the grant of the right to assign the "Sun-

[21] 15 U. S. C. Section 1054 provides that " * * * collective * * * marks * * * shall be registrable * * * in the same manner and with the same effect as are trade-marks, by persons * * * exercising legitimate control over the use of the marks sought to be registered, even though not possessing an industrial or commercial establishment, and when registered they shall be entitled to the protection provided * * * in the case of trade-marks * * * " See *E. I. Du Pont De Nemours & Co.* v. *Celanese Corp.*, Ct. Cust. & Pat. App., 167 F. 2d 484, 487-88; *Doud* v. *Hodge*, N. D. Ill., 146 F. Supp. 887, 890; *Arthur Murray, Inc.* v. *Horst*, D. Mass., 110 F. Supp. 678, 680; also, Developments in the Law—Trade-Marks and Unfair Competition, 68 Harv. L. Rev. 814, 871-72 (1955).

beam" mark to a purchaser of Huber's business.[22] In addition, Huber was not required to buy all its "Sunbeam" advertising material exclusively from QBA, and Huber actually did buy some of those supplies from other sources.

While Huber did submit to QBA sanitation and quality control, it nonetheless derived numerous benefits for itself in doing so. Such compliance by Huber, in our opinion, has no bearing on Huber's claim to exclusive Sunbeam rights within its territory. Indeed, over a period of several years after the execution of the instruments Huber notified QBA on numerous occasions that it considered its right to the use of Sunbeam material in its territory to be exclusive, and QBA acquiesced in these demands by refusing to grant Stroehmann any Sunbeam rights in the Huber area. Thus it cannot be said that the conduct of both Huber and QBA during this period was such as would estop Huber from asserting the position it had successfully maintained until, in 1951, QBA extended Stroehmann's license. Indeed, we find no inconsistency whatever between Huber's conduct throughout and its claim of exclusive rights to the Sunbeam campaign in the territory reserved in the assignment.

The permanent injunction prayed for in the complaint should have been granted and an accounting and assessment of damages ordered.

Reversed and remanded to the District Court for proceedings not inconsistent with this opinion.

---

[22] We do not decide that Huber if it ceased to be a member of QBA, or a purchaser of the Huber business who did not become a member of QBA, could lawfully use the "Sunbeam campaign." See *Royal Baking Powder Co.* v. *FTC*, 2 Cir., 281 Fed. 744; *Independent Baking Powder Co.* v. *Boorman*, D. N. J., 175 Fed. 448; *Prince Mfg. Co.* v. *Prince's Metallic Paint Co.*, 135 N. Y. 24, 39.

Judgment

UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF NEW YORK

Civil Action No. 75-368

HUBER BAKING COMPANY,

Plaintiff,

AGAINST

STROEHMANN BROTHERS COMPANY

AND

QUALITY BAKERS OF AMERICA COOPERATIVE, INC.,

Defendants.

A judgment dismissing the complaint having been entered herein on the 6th day of August, 1956, and plaintiff having duly appealed from said judgment to the United States Court of Appeals for the Second Circuit, and said United States Court of Appeals on the 13th day of March, 1958, having transmitted to this Court its opinion and judgment upon said appeal whereby it was "ordered, adjudged and decreed that the judgment of said District Court be and it hereby is reversed and action remanded for proceedings in accordance with the opinion of this Court; with costs to the appellant", and the said judgment of said Court of Appeals having been made the judgment of this Court by order of this Court entered herein on the

1st day of April, 1958, and the said Court of Appeals having determined that "The permanent injunction prayed for in the complaint should have been granted and an accounting and assessment of damages ordered";

Now, therefore, upon and in accordance with the aforesaid opinion of the United States Court of Appeals for the Second Circuit and pursuant to the judgment of said Court of Appeals and the order of this Court entered thereupon, and upon motion of Appell, Austin & Gay, Esqs., attorneys for plaintiff, it is

ORDERED, ADJUDGED and DECREED that defendants Stroehmann Brothers Company and Quality Bakers of America Cooperative, Inc., and each of them, their officers, agents, servants and employees, and all persons acting in concert or participation with them or either of them, be permanently restrained and enjoined from using, or from authorizing or licensing any other person to use, the mark "Sunbeam" or the name "Miss Sunbeam" or the representation of the little girl known as "Miss Sunbeam", or any adaptations thereof, or any other marks, wrappers, labels or devices in simulation or colorable likeness of plaintiff's wrappers, labels, bags, bands or seals described in the complaint herein and exhibits annexed thereto, in or in connection with the labeling, advertising, distribution or sale of bread, rolls, cake or other baked goods in any part of the territory or trading area described and defined in the two certain agreements between plaintiff and defendant Quality Bakers of America Cooperative, Inc., executed by plaintiff December 26, 1944, Exhibits 3 and 4 annexed to said complaint;

And plaintiff and defendant Stroehmann Brothers Company, by stipulation filed herein, having waived an accounting for profits and assessment of damages as prayed

for in the complaint and in lieu thereof having agreed that the profits derived by Stroehmann Brothers Company by reason of its acts charged in the complaint be fixed in the amount of $9,877.45, it is further

ORDERED, ADJUDGED AND DECREED that plaintiff Huber Baking Company recover from defendant Stroehmann Brothers Company profits in the amount of Nine Thousand Eight Hundred and Seventy-Seven Dollars and forty-five cents ($9,877.45), and that execution may issue therefor, and it is further

ORDERED, ADJUDGED AND DECREED that plaintiff Huber Baking Company recover from defendants Stroehmann Brothers Company and Quality Bakers of America Co-operative, Inc. its costs and disbursements as taxed in the sum of $1,333.16 and that execution may issue therefor.

Dated: New York, N. Y.
June 9, 1958

s/ JOHN M. CASHIN
U. S. D. J.

Judgment Entered: 6/9/58

s/ HERBERT A. CHARLSON
Clerk

H.A.C.

A True Copy

HERBERT A. CHARLSON,
Clerk

By CATHERINE B. SALAMONE
Deputy Clerk

(Seal)

Office Supre
F
AU

IN THE

Supreme Court of the United States

OCTOBER TERM, 1958

No. 217

STROEHMANN BROTHERS COMPANY and QUALITY BAKERS OF AMERICA COOPERATIVE, INC.,

Petitioners,

v.

HUBER BAKING COMPANY,

Respondent.

RESPONDENT'S BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

APPELL, AUSTIN & GAY
Attorneys for Respondent
30 Rockefeller Plaza
New York 20, N. Y.

CYRUS AUSTIN

LENORE B. STOUGHTON
ROGERS, HOGE & HILLS
41 East 42nd Street
New York 17, N. Y.
Of Counsel

INDEX

	PAGE
Statement of the Case	1
Summary of the Facts	2
Grounds of the Decision Below	11
I—This Case Does Not Present a Federal Question Calling for Decision by this Court	13
II—The Decision Below Is Not in Conflict with the Decision of Another Court of Appeals	16
III—The Decision of the Court of Appeals Is Not in Conflict with Controlling Decisions of State Courts	17
IV—The Opinion of the Court of Appeals Is Not "Incomplete", "Unclear" or "Confusing", Nor Has That Court Disregarded the Trial Court's Findings of Fact	18
V—The Petition for a Writ of Certiorari to the United States Court of Appeals for the Second Circuit Should Be Denied	19

Cases and Authorities Cited

Panaview Door & Window Co. v. Reynolds Metals Company, 116 U.S.P.Q. 493	16
Parkway Baking Co. v. Freihofer Baking Co., 154 F. Supp. 823	15
Lanham Act	7, 14
Sec. 1057b	14
Sec. 1115a	14
Federal Rules of Civil Procedure, Rule 60	19

IN THE

Supreme Court of the United States

OCTOBER TERM, 1958

No. 217

STROEHMANN BROTHERS COMPANY and QUALITY BAKERS OF AMERICA COOPERATIVE, INC.,

Petitioners,

v.

HUBER BAKING COMPANY,

Respondent.

RESPONDENT'S BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

Statement of the Case

This case turned principally upon the construction of two agreements entered into by and between Huber Baking Company (plaintiff below) and Quality Bakers of America Cooperative, Inc. (a defendant below) in 1944. In conformity with the petition the parties will be referred to as "Huber", "Stroehmann" and "QBA".

The question involved was as to the respective rights of Huber and QBA in certain marks used for the identification of bread, in the territory defined and reserved to Huber by the two agreements. Stroehmann claimed the

right to use these marks solely as licensee of QBA and only in territory granted it by QBA.

The marks concerned are the word "Sunbeam", of which **Huber was the prior, continuous and exclusive user** in its territory from 1913 until the time of defendants' acts here complained of (end of 1951), and the picture or representation of the head and shoulders of a little girl (usually depicted eating a slice of bread) of which Huber was also the prior and exclusive user in said territory from and after 1942.

The sole issue was whether Huber, as against QBA and Stroehmann, had the exclusive right to the use of these marks in the territory defined in the two agreements. This territory was described in each of the agreements as follows:

> "The entire State of Delaware, together with such portions of the States of Maryland, Pennsylvania and New Jersey as are included within the black divider line on the attached map, including the City of Philadelphia, as shown upon the attached map and the cities or towns of Cochranville, West Chester and Media, even though some of the said territory is not at present served by the Huber Baking Company." (Exs. 3 and 4 annexed to complaint, Rec. 16a, 20a)

Huber claimed no rights in either mark outside the said territory. QBA and Stroehmann denied that Huber had the exclusive right to the use of the marks in any part of said territory.

Summary of the Facts

The salient and undisputed facts upon which this action was brought and decided are not set forth in the petition. As stated by the trial court, "most of the underlying facts here are not really in dispute" (Pet. p. 2b). The Court

of Appeals prefaced its recital of the facts by pointing out that "none of [them] are in serious dispute" (Pet. p. 11b).

Huber operates a single bakery in Wilmington, Delaware, incorporated in 1913 to continue the business carried on since 1888 under the name "Huber's Bakery" (Rec. 72a). Huber is engaged principally in the production and sale of bread and rolls which it distributes to grocers, food markets and restaurants throughout the State of Delaware and in parts of Maryland, southern New Jersey and southeastern Pennsylvania, including the City of Philadelphia. In Philadelphia Huber operates fourteen delivery routes, with annual sales of "Sunbeam" bread and rolls amounting to more than $500,000 (Rec. 318-19a).

Stroehmann is a Pennsylvania corporation operating a chain of six bakeries, five located in Pennsylvania and one in Olean, New York. From its Norristown bakery on the outskirts of Philadelphia Stroehmann has for many years competed with Huber in parts of that city. Prior to 1952 Stroehmann sold its bread in Philadelphia under its "Pride Winner" and other marks, and most of its sales are still under those marks (Rec. 509-10a, 755a).

QBA is a bakers' cooperative organized under the laws of the State of New York. Huber and Stroehmann are members and stockholders in QBA. The president of Stroehmann also was an officer and director of QBA during the period with which this action is concerned.

Huber adopted and used the words "Sun-Beam" as a trademark for its bread in 1913. In that year it began using a small label bearing the words "Huber's Sun-Beam Bread", and copyright registration of this label was obtained (Rec. 632a). Prior to 1920, when waxed paper wrappers came into use, the original label was discontinued and Huber thereafter used wrappers bearing the name "Sunbeam" (Rec. 77a). From then until 1942 Huber continuously employed its "Sunbeam" trademark in various

styles and designs on one or more types of bread made and sold by it. Certain other brands were also used from time to time, but "Sunbeam" was the only mark used continuously from 1913 to 1942 (Rec. 77-8a).

In 1941 Huber was approached with regard to membership in QBA. The services offered by QBA included the handling of members' individual advertising requirements and the designing of trademarks and wrappers at member's expense. A preliminary discussion took place, at which time Huber stated that it wanted to replace its several brands of bread with one brand, and was interested in the development of an advertising campaign for its trademark "Sunbeam", with an attractive bread wrapper featuring a child or children (Rec. 96a, 100a). An understanding was reached that QBA would undertake to prepare such an advertising campaign for Huber, subject to Huber's approval. Huber told QBA that in consideration of that service, and after reserving certain territory to be marked on a map, it "would then give outside of that territory any and all rights we had to the name Sunbeam or the trademark Sunbeam that we had copyrighted back in 1913 to Quality Bakers to be used by them if they cared to for the benefit of their other members". It was suggested that QBA have its attorneys draw up such an agreement (Rec. 97-99a).

An "agreement" in form of an assignment placing this 1941 oral understanding in writing was later prepared by QBA's attorneys and submitted to Huber, and was one of the two agreements executed by Huber on December 26, 1944 (Rec. 16-19a). QBA acknowledged that this assignment was "in accordance with the understanding which we had with you and your father at the time the negotiations were started" (Rec. 685a). The assignment reserved to Huber "the full and unrestricted right" to the use of the "Huber's Sunbeam Bread" label and each and every part thereof within the trading areas specified.

In November 1941 Huber signed a membership agreement with QBA (Rec. 634-42a), and shortly thereafter QBA began preparation of an advertising campaign for Huber's "Sunbeam". QBA had previously been working on a child's head design. However, in January 1942 QBA twice wrote Huber advising against attempting "your idea of using a child's head" in colors at that time, due to war time packaging restrictions, but Huber decided to take that risk and directed QBA to proceed with the wrapper (Rec. 644a, 647-8a). Various sketches were made and submitted to Mr. Huber for approval (Rec. 591-4a, 603a). In April, 1942, a color drawing of the present little girl's head was decided upon. Up to that time there was no assurance that any other member of QBA would like or use the girl's head wrapper. However, in the summer of 1942 a baker in Cleveland decided to adopt this wrapper, and QBA wrote Huber that "Our attorney is now preparing agreements, copyrights, etc. for the new Sunbeam package and also for the licensing of the name 'Sunbeam' to Quality Bakers of America." (Rec. 658a)

QBA thus recognized Huber's ownership of the "Sunbeam" trademark in its territory and the necessity for obtaining a "license" or assignment of this mark *from Huber*, with a delineation of the territory which Huber reserved, so that QBA could safely license this mark along with the little girl's head to bakers in other areas. As found by the Court of Appeals, this recognition of Huber's prior trademark rights in "Sunbeam", evidenced by the reservation of Huber's "full and unrestricted" territorial rights in the assignment which QBA prepared, was the basis for all the negotiations leading up to the execution of the two agreements in 1944. QBA acknowledged that "the case of the Sunbeam wrapper is a special case insofar as you are concerned" (Rec. 679a).

Huber commenced the use of the new "Sunbeam" wrappers and advertising on September 14, 1942, and discon-

tinued its other brand names. From that time up to the present Huber has sold and advertised its bread and rolls under the "Sunbeam" and "Miss Sunbeam" trademarks throughout its territory, including Philadelphia. Petitioners incorrectly state that "The loaf he sells in Philadelphia is not the subject of this suit." It is undisputed that Huber sold its bread in the regular blue and white "Sunbeam" wrapper over all of its routes in Philadelphia from September 1942 up to the time of trial (Rec. 117a, 121a). Furthermore, the distinctive end seals bearing the picture of "Miss Sunbeam" were used on Huber's "Old Time" loaf (an additional loaf introduced in 1948) as well as on its standard "Sunbeam" loaf (Rec. 453a). These end seals positively identify Huber's bread, not QBA, to consumers (Rec. 142-3a, 148a, 167a, 515a, 525a).

The original "Sunbeam" wrapper and newspaper advertisement displaying the picture of the little girl (Exhibits 23 and 24), prepared by QBA for Huber's use in breaking its new "Sunbeam campaign" in 1942, contained no mention of or reference to QBA or to Huber's membership in QBA. The new campaign held out and used both "Sunbeam" and the little girl as marks solely identifying Huber's goods. The undisputed testimony of the nine consumer witnesses and three grocers called by Huber establishes that both the little girl and "Sunbeam" now identify Huber's products solely—not membership in QBA—in Huber's territory (Rec. 142a, 146a, 151a, 159a, 165a, 173a, 513a, 518a, 520a, 524a, 528a, 531a).

In 1943, after Huber had already been using the picture of the little girl on its "Sunbeam" wrappers for nearly a year, QBA registered the picture of the little girl in the Patent Office as a collective mark (Rec. 65a). The registration contains the following assertion of control by QBA:

> "The collective mark is used upon the goods to indicate that the goods are inspected, from time to

time, in applicant's laboratory and quality thereof approved and that such persons so authorized to use same are members of the applicant cooperative corporation."

The word "Sunbeam" was never registered by QBA as a collective mark under the Lanham Act.

The execution of the assignment of Huber's rights in "Sunbeam" outside its reserved territory was delayed until 1944 due to the fact that Huber insisted that it have at the same time a contract with QBA assuring Huber the perpetual and exclusive right within its territory to the use of the little girl's picture and wrapper, including the right of assignment to a purchaser of its business. The negotiations with regard to this contract are shown by the correspondence (Rec. 677-699a).

The two agreements (Rec. 16a, 20a) were signed by Huber and forwarded to QBA on December 26, 1944. Neither of these agreements limits Huber's use of either mark, or of the "Sunbeam campaign", to the term of Huber's membership in QBA or to products approved as to quality by QBA. The reservation in the assignment of the "full and unrestricted right" to the use of "Sunbeam", on the other hand, expressly negatives any inference that Huber's use of "Sunbeam" was intended to be limited to use as a collective mark. The control and very existence of a collective mark depend upon restriction of its use to the organization claiming it.

The "Sunbeam campaign" contract, likewise, contains no limitation to term of membership and no provision for quality control. This contract in terms grants Huber the perpetual right to the use of the "Sunbeam" campaign in the defined territory, with the right of assignment "to any organization which may purchase the Huber Baking Company outright and continue its operation". It was

provided that the limitation on Huber's use of the campaign as designed by QBA "shall not apply at such time as Huber may cease to be a member of QBA".*

The Court of Appeals held that the contract and the assignment must be read and construed together in determining the extent of the rights granted and reserved, and that both instruments should be read in the light of Huber's prior exclusive ownership of "Sunbeam" in its territory.

---

* On May 23, 1944 plaintiff wrote QBA "we * * * want to be sure that in the contract we sign the Huber Baking Company has the perpetual and exclusive rights to the Sunbeam name and wrapper, and in the event that this bakery should be sold, the right to assign the name and wrapper to the new owner" (Rec. 692-3a). After revised contracts had been submitted, plaintiff wrote on July 5, 1944 (Rec. 695a):

> "Although we have no intention of discontinuing our membership in QBA, we do believe that some provision should be included in the event that we are no longer members of Quality Bakers. For this reason, we would like to have the contract drawn between QBA and 'Huber' rather than 'Member'.
>
> "All references to 'so long as Huber remains a member of QBA' should also be omitted.
>
> "Regarding the purchase of advertising, wrapping paper, etc., we will, of course, purchase from QBA so long as we are members of that organization provided that *in our judgment* it is not to our disadvantage to do so."

These changes were made, and QBA replied on August 4, 1944, that

> "In the second paragraph we only require that you use the Sunbeam campaign, etc., as designed by us as long as you remain a member. If you wish, we could add to this second clause specifically that should you withdraw from membership in Quality Bakers of America, you would not have to follow our wishes in the matter of design, etc.
>
> "The first clause of the contract gives you the right to convey the Sunbeam campaign to anyone who may buy the Huber Baking Company regardless of whether they are a member of Quality Bakers of America or not." (Rec. 697-8a)

After the new "Sunbeam" campaign proved successful, Stroehmann, over a period of seven years after the signing of the two agreements, repeatedly attempted to persuade QBA and Huber to permit it to use the "Sunbeam" marks in Philadelphia on the ground that both Stroehmann and Huber would benefit by a joint advertising campaign. Huber always refused to agree to this and on each occasion vigorously asserted its exclusive rights in its territory. (See Pl's. Exs. 48-52, 91-102; Rec. 700-5a, 718-36a.) On each occasion QBA recognized and acceded to Huber's claim of exclusive right and refused to give Stroehmann a Philadelphia license (Rec. 704-5a, 722a, 725a, 727a).*

In 1951 Huber purchased a lot consisting of 64,000 square feet in Philadelphia for the construction of a bakery to adequately serve that city (Rec. 127-8a). Shortly thereafter Stroehmann made a formal application to the QBA Board of Directors for an extension of its "Sunbeam"

---

* On November 6, 1947, QBA wrote Huber that "we are just as glad as you are that all uncertainties concerning the use of advertising material in the territory granted to you on our 'Sunbeam' map have been eliminated" (Rec. 722a).

On December 3, 1947, in response to a complaint by Huber about the use by Stroehmann of certain end seals bearing the little girl's picture in Philadelphia, QBA's General Manager replied:

> "I am today writing Mr. Stroehmann about this and it is my understanding that no 'Sunbeam' material will be used in your territory by other members." (Rec. 725a)

In January, 1950, QBA licensed Stroehmann to use the campaign in the territory served from each of its six plants, the license for the Norristown plant, however, excluding the City of Philadelphia. On September 15, 1950, in response to a further complaint by plaintiff, QBA wrote:

> "Thanks for your letter of September 11th concerning the use of Sunbeam advertising in your territory. I will discuss this with Leonard Thompson and I am sure that this will be discontinued immediately. Undoubtedly the advertising got into this store by mistake." (Rec. 726-7a)

license to include Philadelphia. Stroehmann offered to indemnify QBA up to $100,000 against any lawsuits and legal expenses which might be brought against or incurred by QBA as a result of such action (Rec. 750-1a). On December 12, 1951, QBA granted Stroehmann's application, and Stroehmann thereupon gave QBA an indemnity agreement in an unlimited amount "against any and all actions, suits, claims or demands that may be made or brought against them * * * by Huber Baking Company", including legal expenses (Rec. 754a).

About the beginning of 1952 Stroehmann began distributing and selling "Stroehmann's Sunbeam Bread" in Philadelphia. Stroehmann's "Sunbeam" wrappers, labels, end seals, etc., used in Philadelphia, were obtained from QBA and were substantially identical with the standard "Sunbeam" wrappers, labels and seals used by Huber, except that Stroehmann's name appeared instead of Huber's. Stroehmann's answer admitted that its bakery products are displayed and sold in groceries, self-service markets and other food stores of the same types as those in which Huber's products are sold, and that Stroehmann's bread and Huber's bread are likely to be displayed for sale side by side (Rec. 9a, 45a).

The complaint charged Stroehmann with trademark infringement and with unfair competition. QBA was charged with contributory infringement and unfair competition through having licensed Stroehmann to use the "Sunbeam" marks in Philadelphia and through having supplied Stroehmann with "Sunbeam" wrappers and advertising. It was alleged that QBA's licensing of Stroehmann to use said marks in the territory covered by QBA's agreements with Huber violated those agreements; and Stroehmann was charged with abetting and inducing such violation, all to Huber's irreparable injury.

Grounds of the Decision Below

The decision of the Court of Appeals was placed upon two grounds:

(1) That QBA, and Stroehmann as its licensee, were estopped to question Huber's exclusive right to the use of the "Sunbeam campaign" in the territory specified in the two 1944 agreements, and that this estoppel stems not only from the agreements but from "the whole course of dealing between the parties, both before and after the execution of the two documents"; (2) that the "Sunbeam campaign" contract "construed in the light of the assignment and the pertinent extrinsic evidence" granted Huber the exclusive right to the marks and campaign in the designated territory.

The Court of Appeals did not find it necessary to decide the question of trademark rights. It did conclude that, since "Sunbeam" and the little girl's picture both were used on most of the bread wrappers and the little girl had become known as "Miss Sunbeam", the mark "Sunbeam" had become "merged in the 'Sunbeam campaign'". Huber's claim of continued common law trademark rights in the word "Sunbeam", and its claim that the contract, by granting the unlimited right of use of both marks with provision for continuation of use after membership and for assignment to any purchaser of the business, constituted an effective contractual abandonment of collective control in the defined territory upon the occurrence of either event, were expressly left undecided. The only question presented upon the facts at the time of the trial was whether Huber's right to the use of "Sunbeam" and "Miss Sunbeam" in its territory was exclusive as against QBA and Stroehmann, and the Court of Appeals limited its decision to that question.

The following paragraphs of the opinion fully state the grounds of the decision below:

"We conclude that the contract and the assignment should be read together, and that both instruments should be read in the light of the exclusive right which Huber, prior to its assignment to QBA, had to the mark 'Sunbeam' in the reserved territory, and against the circumstantial background to which reference has been made. We hold that under the contract so construed it was reasonably plain that Huber was intended to have the exclusive use of the Sunbeam campaign in the designated territory.

• • •

"We hold that Huber did reserve the exclusive right to use 'Sunbeam' vis-a-vis QBA in the territory specified in the assignment. The assignment was accepted, the whole course of dealing between the parties, both before and after the execution of the two documents on December 26, 1944, is a recognition, not only of Huber's exclusive right to use 'Sunbeam' in the territory specified but also the exclusive right to use therein the entire Sunbeam campaign, including the picture of the little girl and other Sunbeam advertising prepared by QBA in collaboration with Huber, and Huber acted throughout in reliance on such recognition of its rights. This is all that is necessary to establish an estoppel *inter partes*.

• • •

"Accordingly, in the view we take of the case, the acceptance of the assignment, which reserved "full and unrestricted" trademark rights to Huber in the designated area, and which involved a mark that of necessity had become merged in the overall campaign then in progress, gave rise to a valid and binding estoppel against QBA. In other words, we hold QBA

and necessarily its alleged licensee Strochmann, estopped to question Huber's exclusive rights, within the territory specified in the assignment, to the use of the 'Sunbeam campaign.' And as an independent ground of decision we hold that Huber's license construed in the light of the assignment and the pertinent extrinsic evidence carried exclusive right to the Sunbeam campaign in the designated territory."

I

This Case Does Not Present a Federal Question Calling for Decision by this Court

The petition for certiorari throughout ignores the fact that the principal ground of the decision below was equitable estoppel *inter partes*, although the Court of Appeals "as an independent ground of decision" also construed the 1944 contract as granting Huber the exclusive right to the use of the "Sunbeam campaign" in the territory defined. Neither of these issues presents a federal question. Petitioners' principal complaint seems to be with the Court's construction of the contract; the petition does not appear even to ask for review of the decision below in so far as based on estoppel.

The petition states that this case involves the relationship among members of a non-profit cooperative corporation. Certainly that is not a federal question. Furthermore, the case does not involve the relationship between members of the cooperative. It involves the question of the construction and effect of agreements entered into between Huber and QBA in the light of their negotiations and dealings prior and subsequent thereto, under the peculiar facts of this case.

It is true that the Court of Appeals in its opinion devoted some space to consideration of whether federal law or state law should be applied in construing the agreements.

The Court concluded, however, that "regardless of whether federal or state law is controlling in the case at bar, we do not think the case law on the subject supports the arbitrary rule of interpretation for which QBA and Strochmann contend, as above stated, and we conclude that the agreement is governed by the same rules as are applicable to the interpretation of contracts generally".

No question of construction of the Lanham Act is here presented. That Act recognizes collective marks to the extent of permitting their registration by one exercising "legitimate control", and defines a collective mark for the purposes of registration. There was no contest here as to the validity of QBA's registration of the picture of the little girl. The decision below presents no question either as to the definition of a collective mark or as to the "legitimate control" necessary to register and preserve such a mark. The decision is based solely upon Huber's exclusive right to the use of said marks in its agreed territory, by estoppel and under the agreements.

Furthermore the Lanham Act (Sec. 1057b) merely makes a certificate of registration prima facie evidence of validity and ownership; and by Sec. 1115a it is provided that such registration "shall not preclude an opposing party from proving any legal or equitable defense or defect which might have been asserted if such mark had not been registered."

Petitioners now attempt to argue that it was *ultra vires* for QBA to grant one of its members the exclusive right to use the "Sunbeam campaign" in certain territory. QBA's position seems to be that it could lawfully apportion territory among its members for use of this campaign and give any member the exclusive right of use in certain territory by refusing to license others therein, but that it could not agree to do so. Neither QBA nor Strochmann has heretofore contended that it was unlawful for QBA to restrict a member's use of the campaign to a defined

territory or that a member could lawfully use the campaign outside the territory designated in its license. Obviously, an organization controlling a collective mark, like the owner of a trademark, can grant an exclusive license for the use of the mark in a limited area.* Whether the rights granted Huber by its contract with QBA were in excess of those of a mere licensee, as contended by Huber, and were not dependent on membership in the cooperative, was expressly left undecided and is not a federal question.

The Court of Appeals has pointed out that it is "clear that such an agreement between QBA and Huber to give Huber the exclusive right to use the Sunbeam mark within a specified area was valid and not contrary to the public interest." The trademark "Sunbeam" had identified Huber's goods in its territory since 1913, and the undisputed evidence is that both "Sunbeam" and the little girl have continued to identify Huber's products to the consuming public. Even assuming (although not found by either court) that these marks have to some extent come, or might come, to signify membership in QBA as well, there would be no deception of the public while Huber remains a member of QBA. As stated by the Court of Appeals, the contract served "a legitimate business purpose", since it was made by QBA contemporaneously with and in consideration for Huber's assignment and quitclaim of rights in its trademark "Sunbeam" which QBA could not otherwise have obtained.

QBA argues, in effect, that it should keep all the benefits of its arrangements and agreements with Huber, but that the rights reserved and retained by Huber should not now be recognized because QBA is a cooperative. There is

---

* See *Parkway Baking Co.* v. *Freihofer Baking Co.*, 154 F. Supp. 823 (cited by petitioners) where exclusive territorial licenses of a trademark for bread were granted and enforced.

no federal question involved in such an argument, nor is there any legal or moral justification for the result sought by QBA.

II

The Decision Below Is Not in Conflict with the Decision of another Court of Appeals

The decision of the Court of Appeals in this case is not in conflict with the decision of the Court of Appeals for the Ninth Circuit in *Panaview Door & Window Co.* v. *Reynolds Metals Company*, reported in 116 U.S.P.Q. 493. That case involved the manufacture and sale of certain aluminum extrusions by Reynolds from dies prepared according to specifications furnished by Panaview. The question was whether the contract under which Reynolds furnished the extrusions to Panaview prohibited Reynolds from selling extrusions made from the same dies to other customers. There is no similarity between either the contracts or the circumstances there and here. There was no reservation of rights by Panaview, nor did that case involve a license to use, much less a trademark license.

Here the Court of Appeals expressly has held that the contract between Huber and QBA is ambiguous; that "since the contract is ambiguous on its face we must look at the circumstances surrounding its formulation in aid of interpreting the agreement"; that "the contract and the assignment should be read together"—which the trial court failed to do; and "that both instruments should be read in the light of the exclusive right which Huber" had previously had, "and against the circumstantial background".

This was entirely in accord with the views expressed by the Ninth Circuit in the *Panaview* case as to the proper approach to such a situation. Speaking of some of the evidence in that case, the court said (116 U.S.P.Q. 496):

> "Where the language of a contract is ambiguous, the court must endeavor to find that meaning which represents the intent of the parties when the contract was executed. One permissible course in searching for such intent is to examine the circumstances under which the contract was made and the matters to which it relates."

Upon such examination the court confirmed its original view that the contract did not require Reynolds to sell extrusions made from its dies exclusively to Panaview, but it added (p. 497):

> "If we should * * * hold that on the entire record it is clear a mistake has been made, we could, of course, reverse."

III

The Decision of the Court of Appeals Is Not in Conflict with Controlling Decisions of State Courts

The decision here is not in conflict with any state court decisions cited by petitioners, much less with any controlling state court decisions.

In its opinion the Court of Appeals reviewed some of the cases now cited by petitioners and concluded that they were not controlling here. Indeed, it observed that those cases were "readily distinguishable", "not persuasive when applied to the fact situation now before us", and "in addition, it is not clear that they formulate a rule of law even if state law be applicable". The Court subsequently pointed out that "another difficulty with the statement of law in these Pennsylvania and New York cases as applied to the facts of the case at bar, is that there are other cases in those states the rules of which, when applied to the Huber license, would lead to a contrary result". Petitioners' real complaint here is not that the wrong

rules have been applied, but that they do not like the result.

We wish to emphasize again that the decision of the Court of Appeals is based upon two independent grounds, one of which grounds is equitable estoppel. A construction of the agreements between Huber and QBA as providing for exclusivity of use is not prerequisite to the conclusion that they "gave rise to a valid and binding estoppel". Petitioners cite no federal case and no state case in conflict with the decision of the Court of Appeals that the facts here present "all that is necessary to establish an estoppel *inter partes*".

IV

The Opinion of the Court of Appeals Is Not "Incomplete", "Unclear" or "Confusing", Nor Has that Court Disregarded the Trial Court's Findings of Fact

If the opinion of the Court of Appeals were incomplete or confusing, petitioners' proper recourse was a petition for rehearing and for clarification, rather than a review by this Court.

The opinion is not "incomplete" in failing to decide what Huber's rights would be upon termination of its membership in QBA. That situation has not arisen and may never arise. If it should arise the circumstances of loss of membership, whether voluntary or involuntary, and the significance and manner of usage of the "Sunbeam" marks at the time, might have great bearing upon the subsequent rights. The court correctly refused to speculate by attempting to define future rights in circumstances as yet unknown.

The Court of Appeals correctly granted a permanent injunction not dependent upon Huber's membership in QBA or QBA quality control. Huber's rights under the

two agreements are not so limited: neither agreement limits the right of use granted or reserved to the term of Huber's membership in QBA or to products approved by QBA. The contract explicitly contemplates continuation of the right of use after termination of membership. Petitioners will at all times have recourse to F.R.C.P. Rule 60 in the event that a future change of circumstances should justify modification of the injunction.

The Court of Appeals did not disregard the findings of the trial court. As both courts found, there was little, if any, dispute as to the material facts. If the trial court reached a clearly erroneous result, whether by mistake of fact or by mistaken conclusion in interpreting the facts, or by mere failure to consider all of the evidence, the Court of Appeals is not bound by the error below, nor is it bound to use the term "clearly erroneous" in correcting the error.

V

It is submitted that the petition for a writ of certiorari to the United States Court of Appeals for the Second Circuit should be denied.

Respectfully submitted,

APPELL, AUSTIN & GAY
Attorneys for Respondent
30 Rockefeller Plaza
New York 20, N. Y.

CYRUS AUSTIN

LENORE R. STOUGHTON
ROGERS, HOGE & HILLS
Of Counsel

ILE COPY

Office Supreme Court, U.S.
FILED
SEP 4 1958
JAMES R. BROWNING, Clerk

IN THE

Supreme Court of the United States

October Term, 1958

No. 217

STROEHMANN BROTHERS COMPANY and QUALITY BAKERS OF AMERICA COOPERATIVE, INC.,
Petitioners,

v.

HUBER BAKING COMPANY,
Respondent.

REPLY BRIEF ON BEHALF OF PETITIONERS

ROBERTS B. LARSON,
Attorney for Petitioner, Stroehmann Brothers Company,
No. 1625 Eye Street, N. W.,
Washington 6, D. C.

HAROLD GREENWALD,
Attorney for Petitioner, Quality Bakers of America Cooperative, Inc.,
No. 170 Broadway,
New York 38, N. Y.

LODER APPEL PRESS, INC., 65 Duane Street, N. Y. C. WOrth 2-0689.

INDEX

	PAGE
As to Respondent's "Summary of Facts" and Denial That the Findings of Fact by the Trial Court Were Disregarded Below	1
As to Respondent's Argument	3
Conclusion	4

CASE CITED

Panaview, 116 U. S. P. Q. 493 ..... 2, 3.

IN THE

Supreme Court of the United States

OCTOBER TERM, 1958

No. 217

STROEHMANN BROTHERS COMPANY and QUALITY BAKERS OF AMERICA COOPERATIVE, INC.,

Petitioners,

v.

HUBER BAKING COMPANY,

Respondent.

REPLY BRIEF ON BEHALF OF PETITIONERS

As to Respondent's "Summary of Facts" and Denial That the Findings of Fact by the Trial Court Were Disregarded Below

It is noted that respondent commences its "Summary of the Facts" (brief, p. 2) with the statement that "The salient and undisputed facts upon which this action was brought and decided are not set forth in the petition". The two sentences of the "summary" next following are to the effect that the findings of fact by the trial Court are not in serious dispute and that the findings of fact by the Court of Appeals, likewise, are not in serious dispute.

If, then, the facts are not in dispute, respondent's charge that the petition is deficient in its statement of the same invites the question, what are the facts and where are they accurately set forth? The answer, we submit, to which respondent cannot reasonably take exception, is that the facts are as found by the trial Court which heard the witnesses and determined their credibility, and that they are set forth in the decision of Judge Walsh (Appendix B, pp. 1b-9b, of the petition).

An example of "facts", neither found by the trial Court nor supported by the record, but stated in respondent's brief (p. 4) and in the opinion of the Circuit Court (p. 15b), is that the unilateral assignment (characterized by respondent as "An 'agreement' in form of an assignment", being exhibit 3 annexed to the complaint, record p. 16a) "was prepared by QBA's attorneys". Respondent avows (brief, p. 5) that, in 1942, QBA sent to Huber a draft of the assignment, which was not the instrument executed by Huber some two years thereafter.

The finding by the Court of Appeals of an estoppel against QBA, to which much of respondent's brief is devoted, is diametrically opposed to the finding by the trial Court of an estoppel against Huber. Since estoppel must proceed from facts giving rise to equities, it is submitted that respondent accents the cogency of the last of the five reasons presented by petitioner for granting certiorari, to wit, that "The Court of Appeals has disregarded the findings of fact by the District Court which, unless clearly wrong, and the Court did not so find, is contrary to Rule 52a".

We believe, as stated in the petition (p. 11), that a clear and pertinent conflict exists between the decision below and the simultaneous decision of the Ninth Circuit in *Panaview* (116 U. S. P. Q. 493). Respondent answers

that, in both cases, the Court held that there was ambiguity. We submit that the Ninth Circuit properly held that ambiguity is resolved by looking to "the circumstances under which the contract was made." (Respondent's brief, p. 17). In each case, that was done by the respective District Judge. In *Panaview*, the Circuit Court held that, absent clear error, it was bound by the District Court's findings of fact as to those surrounding circumstances. In the instant case, comparable findings by the District Court were ignored below and the matter treated *de novo*.

As to Respondent's Argument

As to the remaining four reasons for granting the writ, the opposing brief responds in the main by denying their existence, but hardly seeking to meet the postulates which the petition advances.

For example, respondent denies that the opinion below is incomplete, unclear and confusing and, in support of such denial, asserts that the Court of Appeals properly declined to decide the rights of the parties, should Huber's membership cease in the future. But respondent refuses to discuss petitioner's showing, not that the Court refrained from ruling *in futuro*, but that it missed the gravamen of the action.

QBA's extension of the Strochmann license into a part of the Huber's territory brought about this litigation. And Huber's failure to exploit within such territory brought about that extension. Yet, in the decision holding the Huber license to be exclusive, Huber's obligation to exploit (petition, p. 16), which is a corollary of such holding, has been completely ignored and a permanent injunction issued, without taking into consideration the necessity of either present exploitation or future QBA membership.

The decision, thus, places the parties back into the position which they occupied when, in December, 1951 (Plaintiff's Exhibits 129, 132, Record pp. 741a, 752a), Huber was invited by the Board to discuss the Philadelphia situation, his own failure to exploit and the proposed extension to Stroehmann, an invitation which Huber declined.

If Huber had reasonably exploited, as he repeatedly promised to do, the interests of his fellow licensees would not have been prejudiced, there would have been no vacuum and no necessity for the extension. Indeed, QBA repeatedly deferred action upon this membership matter in reliance upon such repeated promises vigorously to exploit.

If Huber was then under no duty to exploit, his rights as a licensee were then, and have since remained, non-exclusive.

If Huber's license then was exclusive, his failure to exploit constituted a breach and justified QBA's extension to Stroehmann.

And, if Huber's license is now held to be exclusive, he must now be required to exploit reasonably, as behooves the holder of an exclusive license.

Relegating the parties to "F. R. C. P. Rule 60" (Respondent's brief, p. 19) is hardly an answer to over five years of litigation.

Conclusion

Petitioners urge that the decision herein should be reviewed in the interest of the numerous large and growing non-profit cooperatives, their basic objectives, significant activities and expanding memberships, as well as in the

interest of those who grant and those who receive licenses, whether under trade marks registered pursuant to the Lanham Act, or under patents, copyrights or sundry proprietary rights.

The petition prayed for should be granted.

Respectfully submitted,

ROBERTS B. LARSON,
HAROLD GREENWALD,
Attorneys for Petitioners.